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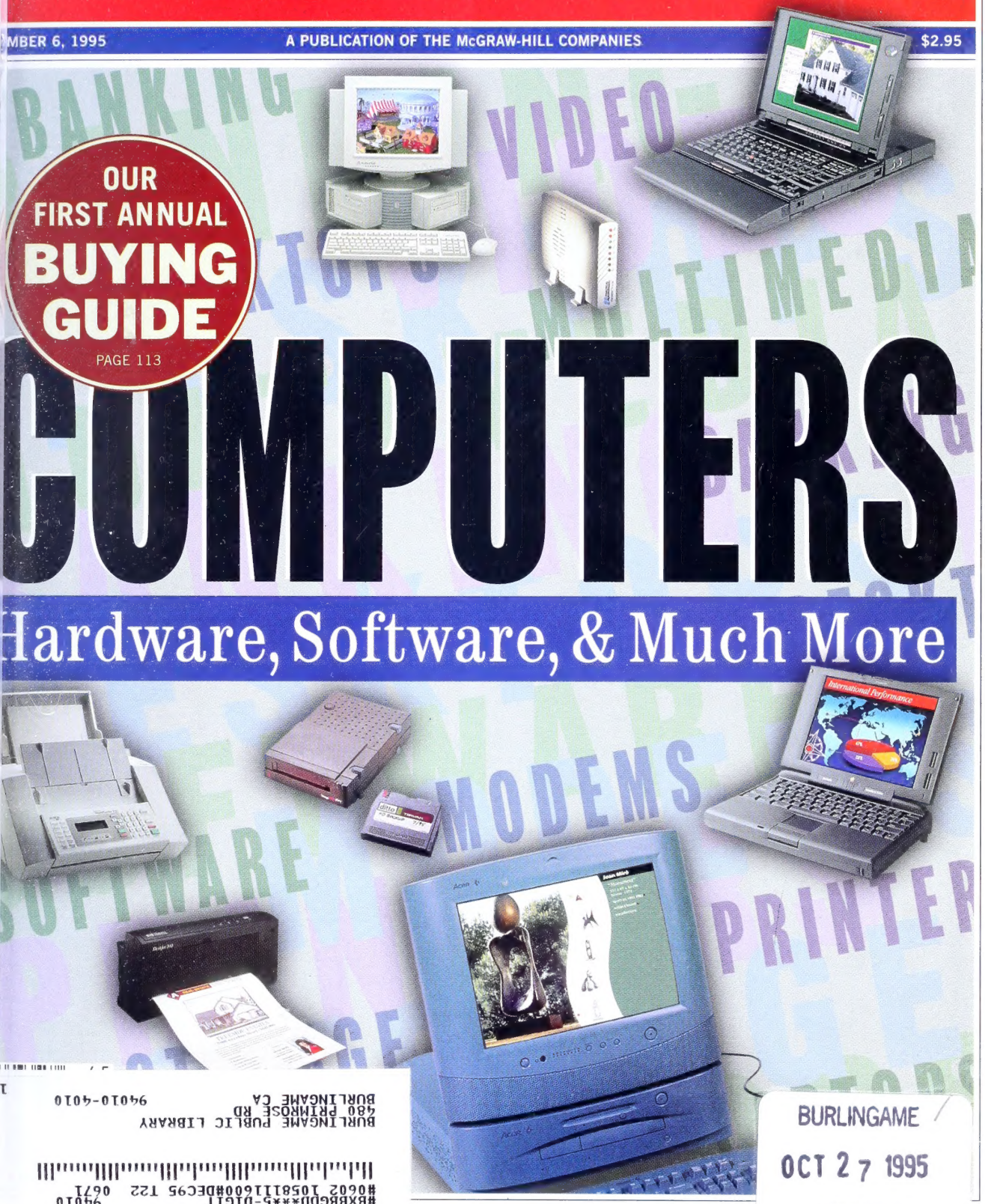

OUR FIRST ANNUAL BUYING GUIDE

PAGE 113

COMPUTERS

Hardware, Software, & Much More

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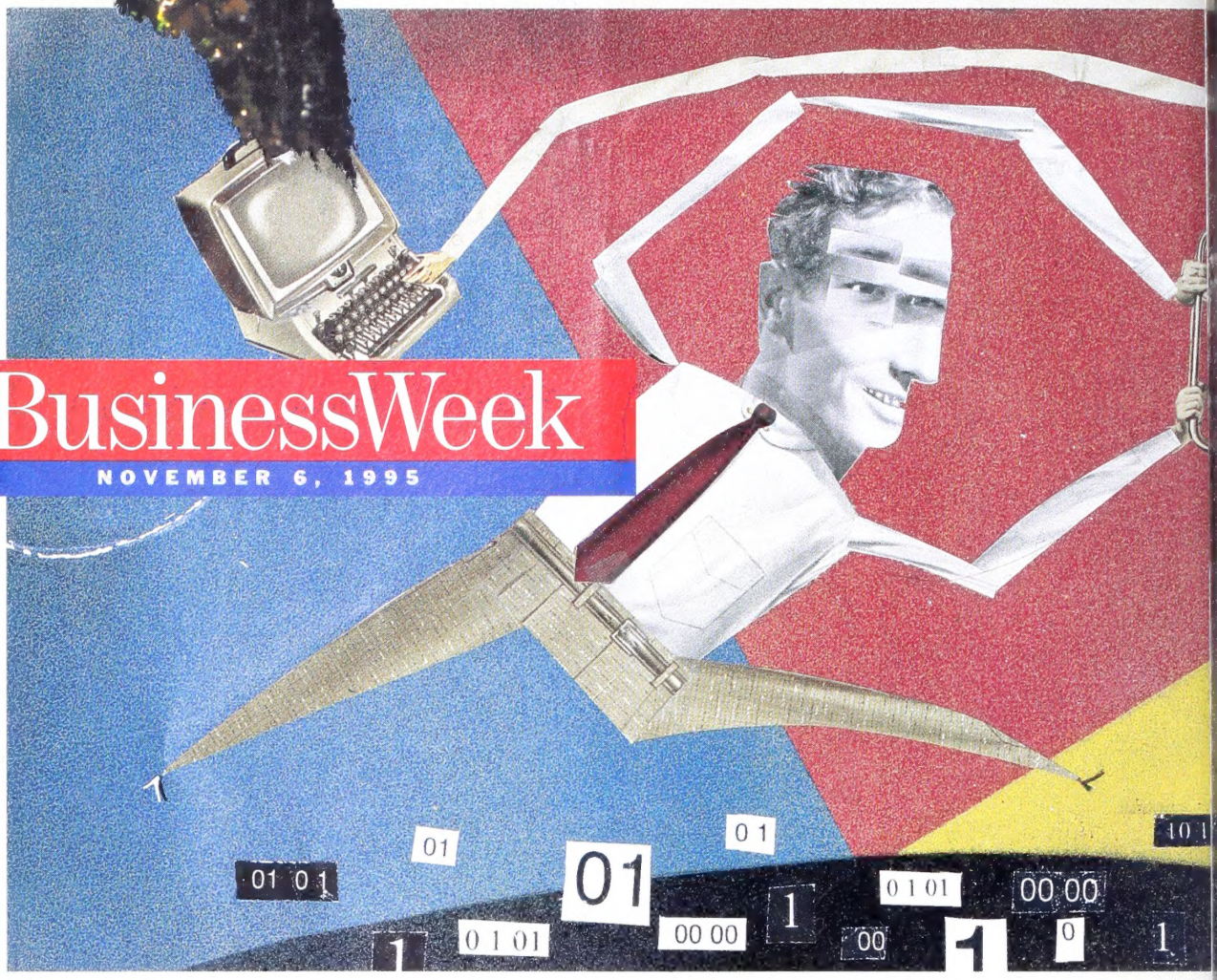

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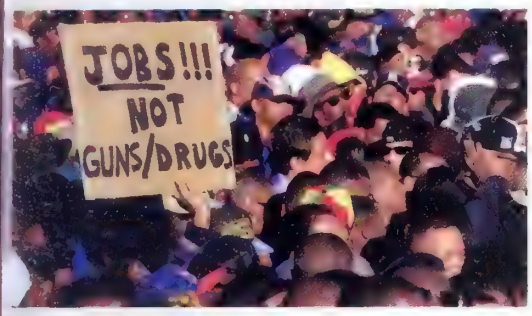

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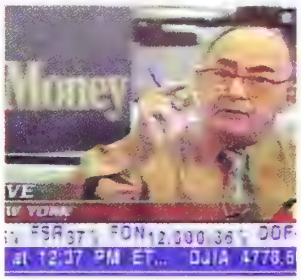

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A budget finale minus the hysterics

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "It is not sustainable for member states enjoy representation without taxation."
—*British Prime Minister John Major, criticizing the for not paying the $1.3 billion it owes the U. N.*

DIVERSITY

AN O.J. BACKLASH IN THE BOARDROOM?

THE O.J. SIMPSON verdict is making companies less inclined to name black directors. So says Richard Ferry, chairman of Korn/Ferry International, the world's largest executive-search firm. That would reverse an increasing African American presence in boardrooms. In May, a Korn/Ferry survey showed 31% of big U.S. companies had at least one black director—and 35% of the chairmen planned to add more.

FERRY: *"It's subtle"*

Since Simpson's acquittal, though, Ferry says he detects a new attitude in the corner office. Ferry, whose firm handles about 60 director searches a year, now predicts "times when blacks under consideration for [a board] position will be passed over, based on what I'm hearing."

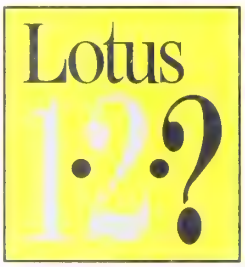
Why would chairmen snub African Americans having nothing to do with the Simpson matter? "I think [there's] a sense there has been an injustice here," says Ferry. "If [chairmen] are going to make a statement, this is the way. It's subtle, but meaningful of their views of the trial and the verdict. People are very angry."

One specialist in minority searches says she had noticed, before the verdict, a top-level mood change against affirmative action that the acquittal may have worsened. Betsy Berkhemer-Credaire of Diversity Search Partners says: "Corporations are not as intent on looking for senior executives who are minorities." But management consultant Freada Klein says the harsh reaction to the O.J. verdict is unfair: "I don't know what on earth that has to do with an individual who would be qualified to serve." *Elizabeth Lesly*

MIGRATIONS

FALLING PETALS AT LOTUS

THE BRAIN DRAIN CONTINUES at Lotus. Long-time Chairman Jim Manzi quit on Oct. 11. Now, chief technologist John Landry and business development honcho K.C. Branscomb are the latest executives to leave, bringing the tally to seven out of the top eight execs who have departed since IBM acquired the software maker in July. Or make that six-and-a-half. Landry, 47, will stay on as a part-time consultant, helping to guide IBM'S Internet strategy.



Nonetheless, Landry's exit is a real loss for Big Blue. At IBM Chairman Louis Gerstner's behest, Landry has been consolidating the companies' scattered Internet efforts. Friends say Landry is not enthralled with the idea of working for a corporate behemoth. Neither Landry nor Branscomb could be reached.

Branscomb, 40, like Landry a senior veep, has no immediate plans, says a Lotus spokesman. Not that she or any other Lotus execs need them: Most made millions on IBM'S $3.5 billion acquisition. *Amy Cortese*

SLUGFESTS

CHRYSLER'S TRAVELS IRK KIRK

CHRYSLER EXECS are looking for a foreign partner, which Kirk Kerkorian worries is a ploy to block him. Chrysler sources say the company has a secret team, headed by quality chief James Holden, to forge global alliances. The group has visited Tokyo (Honda's home) and Stuttgart (Daimler Benz's HQ), but it's not certain talks were held. One source says the effort has "nothing to do with Kerkorian."

EATON: *A ploy?*

Yet Kerkorian aide Jerome York fears an overseas deal would dilute Kirk's 14% Chrysler stake, perhaps by giving a partner preferred stock with special voting rights. The partner could then thwart Kerkorian's bid to tap Chrysler's $6.4 billion cash stash for stock buybacks and higher dividends.

Chrysler denies a special stock plan is in the works, and won't comment on the Holden team. Chairman Robert Eaton has said he wants to expand overseas, which could dig into cash. Kerkorian unveiled his own Chrysler wish list in an Oct. 25 SEC filing. One item: Board seats for York and two other outsiders. *Bill Vlasic*

PUBLISHERS' ROW

NEW CHAPTER IN A BOOK FLAP

AUTHOR MICHAEL TRE who was accused of mar lating *The New York Ti* best-seller list, has left Cambridge (Mass.) consul firm CSC Index. A BUSI WEEK story (Aug. 7) reported that Treacy and Fred Wiersema appear to have mounted a campaign to inflate the sales of their book, *The Discipline of Market Leaders*, to get on the *Times* list.

TREACY: *of the sca*

Treacy, who had been affiliated with CSC since 1989, is now the principal of Boston-based consulting firm Treacy & Co., says his spokesm Founded in 1985, Treacy Co. had been headquarte at CSC but moved out in e October. The move had b planned for "some time," Treacy's leaving was unrela to the book flap, says spokesman. Treacy has s the book benefited only fr smart marketing and den any wrongdoing. CSC has s the charges are true, isn't commenting on Trea departure.

Treacy has lost just "handful" of $30,000 speak engagements since BUSINESS WEEK story peared, his spokesman sa An example: IBM'S Chicago fice, which was concerr about Treacy's credibility, c celed a speech scheduled October, say IBM sources. wouldn't comment officia Wiersema left CSC in Aug to write a book. *Willy St*

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NSTRUMENTS FOR PROFESSIONALS

BOO: *Universal's party*

TRICK OR TREAT

JUST SCARING UP SOME BUSINESS

HALLOWEEN HAS TURNED theme parks' traditionally blah month of October into a bloody success. Ghouls, monsters, and ghosts are providing thrills that water slides and rollercoasters can't.

Universal Studios Florida, which started with three Halloween nights in 1991, has boosted that to 12 this October. On its opening nights, Oct. 13-14, attendance surged 70% over the year before. To create a creepy ambience, the movie-based park has three haunted houses, where you encounter such chilling sights as a mummy, a crazed hunchback, and a woman entombed alive with rats.

Universal has plenty of company on the graveyard shift. The number of parks with Halloween attractions has tripled during the past five years, according to Tim O'Brien, Southeast editor of *Amusement Business* magazine. Six Flags has expanded its "Fright Fest," begun in its Houston park in 1986, to all seven locations. At Opryland in Nashville, there's "Howl-O-Ween." And Knott's Berry Farm in Buena Park, Calif., projects a fourth quarter as big as its summer because of a 13-night transformation to Knott's Scary Farm. Not such grim reaping, after all. *David Waskin*

TECH TALK

DR. FEELGOOD GOES SUBLIMINAL

REMEMBER THE 1950S FUSS over subliminal messages in movies? They supposedly whiz past your eyes, beguiling you to buy a soda. Audio and visual versions are showing up in a new CD-ROM puzzle game and movie—along with fears of mind control.

ZAP: *Fiorentino, Caruso in* Jade. *CD-ROM game*

The $30 Endorfun puzzle, due out in November, has a music soundtrack with more than 100 subliminal messages meant to make players feel good about themselves—even if they can't solve the puzzle. Example: "I am a winner." In the movie *Jade*, director William Friedkin flashes clues to upcoming plot twists.

Subliminal messages aren't illegal. In 1974, the Federal Communications Commission denounced subliminals in broadcasting as deceptive. Now, Britain's Entertainment & Leisure Software Publishers Assn. is eyeing a ban. Time Warner Interactive's Endorfun says it discloses its use of subliminals and has instructions to turn off the soundtrack.

Oddly, no one is sure whether they really work. *Jade*, which stars Linda Fiorentino and David Caruso, has fizzled, taking in only $7.7 million since its Oct. 13 release. *Larry Armstrong*

DRAWN & QUARTERED

WORD PLAY

WHO'S IN? OUT? THE SPELLCHECKER KNOW

FOR MICROSOFT, SOFTWARE rival Netscape doesn't exist—nor do a bunch of other high-tech competitors. If you type one of their names on the Windows 95 version of Microsoft Word, the spellchecker says it's a mistake. To be fair, the program does recognize "IBM" and "AT&T." But try putting in "Novell" or "Sybase." Sorry.

Unrecognized by Microsoft's Spellchecker

ACER
NETSCAPE
NOVELL
PACKARD-BELL
POWERSOFT
SAMSUNG
SYBASE

DATA: BUSINESS WEEK

A conspiracy? Microsoft explains that the top 500 U.S. companies are included in the spellchecker's database—except names that come too close to common words. That is, Microsoft ures more people will r spell "novel" than "Nov and wants to avoid confus

What ab Netscape, the new issue t helps users around the Int net? Well, it's nc big enough com ny to be listec yet. Microsoft nc that people can ways add t words to Wor personal spell dictionary.

And Microso spellchecker gets personal. Chief Louis Gerstner is spellchecker nonperson. Bill Gates exists. *Paul E*

THE BIG PICTURE

Employers plan strong boost in hiring for 1995's last quarter. Nationwide, the proportion o companies planning to increase hiring is 15 percentage point higher than those cutting hiring. Here are the best and worst

FOOTNOTES Share of Americans who fall asleep in front of the television at least three times a week: 25%

"Of all the dozens of high-tech products we're proud of, the heart pump is truly priceless. Not because of what it does for us, but what it does for people," says John N. Hatsopoulos, Chairman of Thermedics Inc., listed on the AMEX since 1987. "How do we like the AMEX? We've spun twelve companies onto it. Worth $60 million to $1.9 billion. Trading is outstanding. And the staff really works to get us what we need among top analysts and institutions. Visibility." **JOHN HATSOPOULOS IS BIG ON THE AMEX.**

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Readers Report

WHAT'S THE LINK BETWEEN HOME AND ECONOMICS?

I beg to differ with Gary S. Becker ("Housework: The missing piece of the economic pie," Economic Viewpoint, Oct. 16). Public policy should be based on sound economic information, not admirable social opinions.

The gross domestic product should reflect economic transfers of wealth related to goods and services. As valuable as child care and other housework might be when paid under contract, they involve no measurable economic activity when self-performed. If all such services were part of GDP, we would also value landscaping, building maintenance, and appliance repair, among others. In fact, GDP omits volunteer work and unpaid advice such as mother-in-law consulting.

Real economic activities, such as illegal enterprises (i.e., drugs, theft, etc.) and "underground" transactions (i.e., cash), that do involve economic transfers of wealth at least as large as the "value" of housework would be better additions to GDP and would be of more import to public policy. The only problem is how to tax this part of the economy to eliminate the budget deficit.

Michael Martino
Cherry Hill, N.J.

Gary Becker's article is a bold and just statement—and it is one that many women besides myself would welcome as a logical inclusion in the nation's gross domestic product. Another change, long overdue, is that housework and family care should be recognized as part of the curriculum vitae of those of us who choose to return to the workforce after staying at home to raise our children.

For too many years, corporations have projected the myth that housework was not a measurable skill in terms of job-related activities. On the contrary, the skills involved in scheduling—not only of children's activities but also of school meeting activities, volunteering, and attention to household needs—are innumerable.

CORRECTIONS & CLARIFICATIONS

"The case against mergers" (Special Repo
Oct. 30) misidentified Rover Group's form
Japanese partner. It was Honda, not Nissa

In "Montgomery: Too much, too soon?" (
nance, Oct. 23), the table measured IPO pe
formance through Oct. 9, 1995, not Aug. 3

In "Divide and conquer?" (News: Analysis
Commentary, Oct. 2), the table should ha
identified the former NCR as AT&T Global
formation Solutions.

Gary Becker is right: Housework
family care are definitely part of a
tion's GDP.

Gillian A. Hadd
Eastchester, New Y

Thank you, Gary Becker! I told
wife that she is now contribut
$50,000 to gross domestic product e
year. There is no withholding and
tax, and she is "earning" more than
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rates, reduce the deficit, and set in m
tion a vicious cycle of economic grow
and prosperity.

Ray Dama
Spartanburg, S.

ARGENTINA: A BIGGER DROP IN THE POVERTY RATE

Your article "Menem: The devil's re
name is devaluation" (Internation
Business, Aug. 28) is very good a
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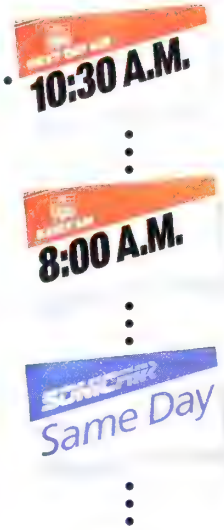

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perhaps due to an error in trans-
n or printing.
) the question "What will you do
t joblessness?" I replied that un-
loyment rose but that the levels of
rty decreased notably—since the
rty rate when I assumed the pres-
cy was 37% and now is 13%, not
as published.
believe the difference is important.

Carlos Saúl Menem
President of Argentina
Buenos Aires

RUGRATS'
ER PARENT

ur article "The *Rugrats*' real mom
dad" (People, Oct. 16) on Arlene
ky and Gabor Csupo is inaccurate in
ting my role in the creation and
uction of the series *Rugrats*, Klasky
o Inc.'s biggest success. The article
rrect in stating that the main char-
c in the series is named after my
I created the character Tommy, as I
nost of the other characters in the
s.
also created the original idea for
series, along with Gabor and Ar-
I came up with the name *Rugrats*.
rsonally pitched the idea to Nickel-
n in 1989, wrote, produced, and
e-directed the pilot which sold the
s, and was creative producer, voice
ctor, and head story editor of every
ode from beginning to end.
have also received three Emmys
Rugrats, one in each category for
h the series won.

Paul Germain
Los Angeles

ETTER WAY
FIGHT SWEATSHOPS

seems antithetical as well as hypo-
cal for Labor Secretary Robert B.
h to castigate the U.S. apparel in-
ry and retailers for ignoring sweat-
s at home, while at the same time
U.S. government allows taxpayer-
led agencies to finance U.S. compa-
that want to set up shop in foreign
ntries ("Look who's sweating now,"
Workplace, Oct. 16). The reason
most sweatshops exist is in order
give U.S. companies a chance to
pete against those that have moved
nore.
Reich wants retailers to police the
arel industry, he should do whatever
ecessary to defund the agencies that
port companies that move away to
umvent U.S. labor and wage laws.
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Frankfurt, Germany

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London, U.K.

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New York, NY

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Paramus, NJ

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San Francisco, CA

Pfizer
Stamford, CT

Lockheed Martin
Syracuse, NY

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Albany, NY

NationsBank
Atlanta, GA

Reebok
Boston, MA

National Fuel Gas
Buffalo, NY

De Paul University
Chicago, IL

Morgan Stanley
Frankfurt, Germany

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Liberty State Park, NJ

Barclays Bank
London, U.K.

Nassau County Police
Long Island, NY

ADP
Morristown, NJ

Rodale Press
New York, NY

ADP
Paramus, NJ

Eastman Kodak
Rochester, NY

Synopsys
San Francisco, CA

IBM Corporation
Stamford, CT

SUNY Health Science Center
Syracuse, NY

Coed Division Winning Team: Hyde Athletic Industries

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Albany, NY

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Atlanta, GA

Hyde Athletic Industries
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Chicago, IL

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Frankfurt, Germany

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London, U.K.

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Long Island, NY

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Morristown, NJ

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abor and safety laws. Or the rest of apparel industry could move off-e, and then Reich wouldn't have to y about sweatshops!

Hank Ross
Pennington Gap, Va.

OSING RIGHT CHINA

understand from reading "The new e superpower" (International Busi-, Oct. 16) that alarm bells went off Vashington after China developed rategy to enter new high-end in-ries and to pit Ford, General Mo-, and other big carmakers against other in a bidding war designed to sfer technology.

elp me understand this: Why ld Washington get worried when orate America gives the Chinese a ce to appreciate the beauty of com-tion? Isn't this one of the princi- of a market economy that the in-rialized world has been trying to ch to China?

here is nothing wrong with the Ad-istration's recognizing the trade it with China and making an effort ackle it. But to avoid inconsistency s China policy, Washington needs ave a clear answer to this question: s it want a communist China with nderdeveloped, inefficient economy, oes it want a democratic China with egaeconomy competing with the . in a global market? Which does it er?

Weiwen Xiong
Department of Economics
Texas A&M University
College Station, Tex.

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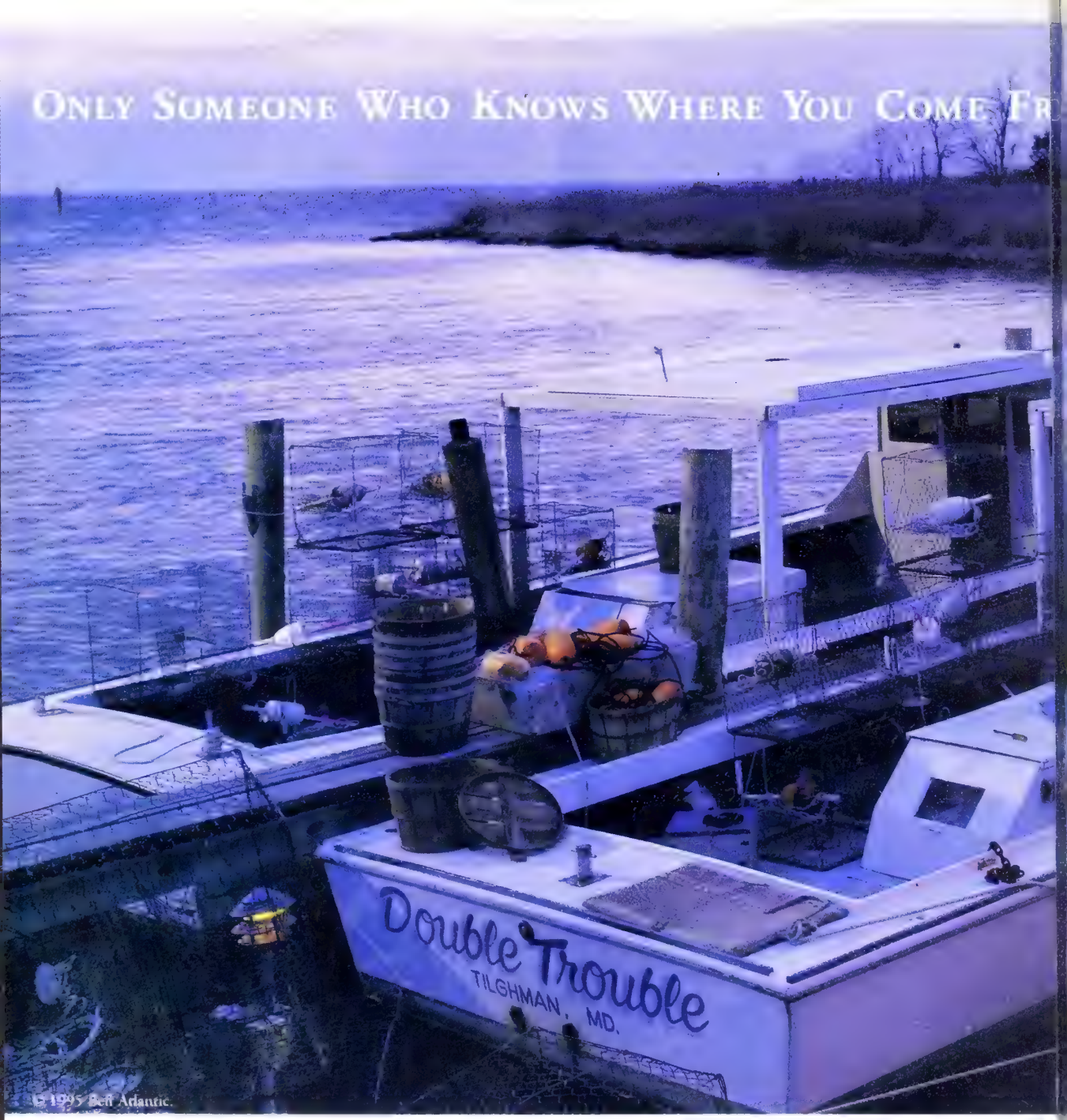
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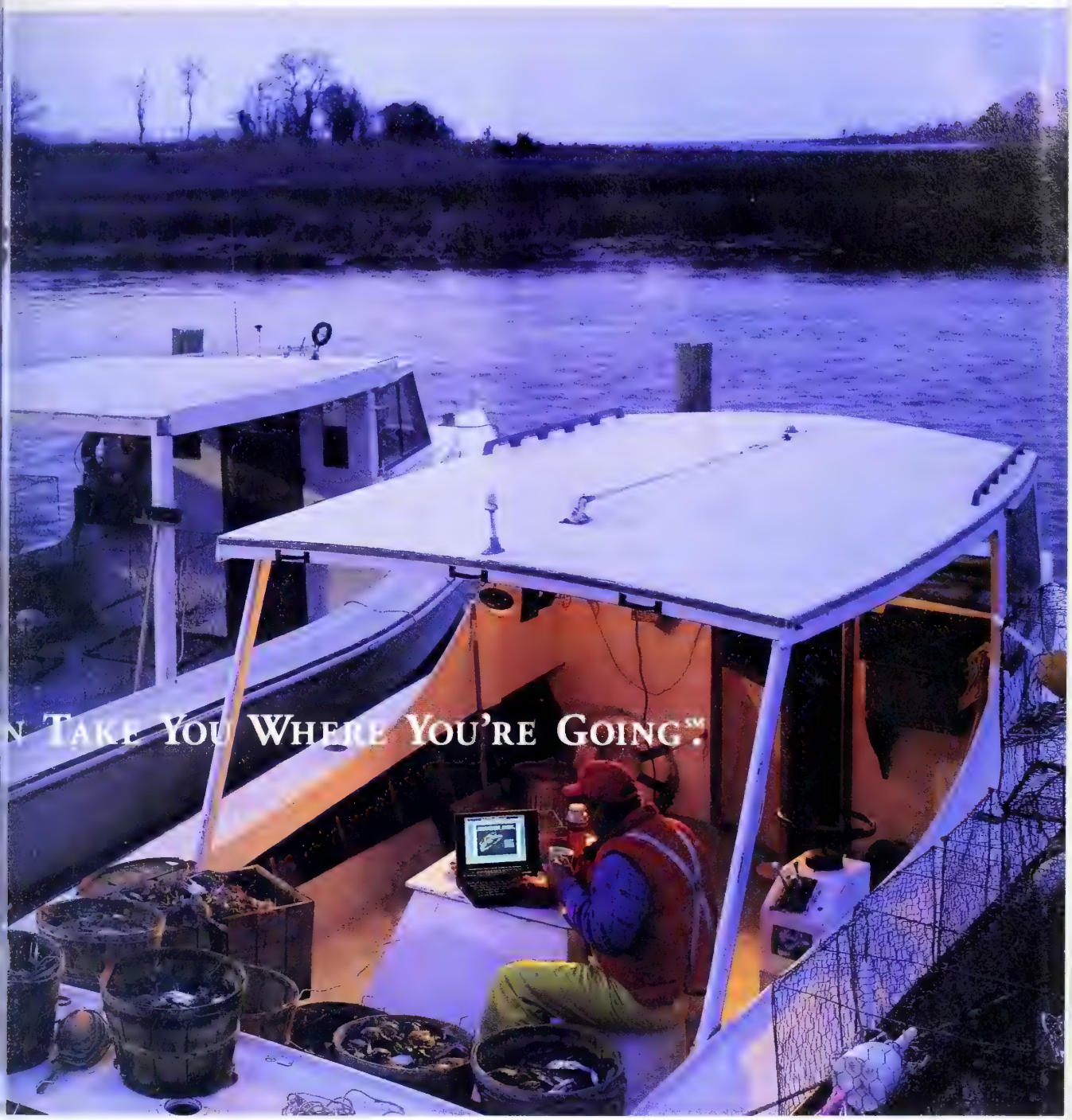

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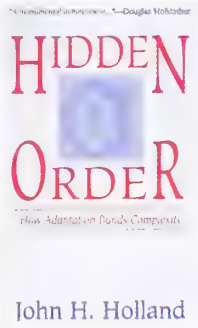
AT HOME IN THE UNIVERSE
By Stuart Kauffman
Oxford • 321pp • $25

AN THE COMPLEXITY URUS EXPLAIN IT ALL?

(or all its accomplishments and vaunted brainpower, the human species still faces myriad mysterand problems. No one has yet manto figure out how life began, how ep ecosystems healthy, why new ses such as AIDS emerge, how the ɔmy really works, or how to cure lls of America's inner cities. But the late 1980s, in a display of couror perhaps of hubris, a group of tists at the Santa Fe Institute in Mexico has tried to tackle these ions from a fresh perspective: the ce of complexity. Part of their stoas already been chronicled in an taining—if breathless—1992 book ience writer M. Mitchell Waldrop. two of the scientists themselves ɔroviding the latest word on the search for deeper meaning.

Their basic idea: All of these questions arise in what might be called "complex" systems, such as ecosystems or the economy. Instead of trying to puzzle out the workings of one system, why not find general laws that underlie all these systems? Understanding what makes all of them tick "would, in turn, provide us with guidelines for effective approaches to... problems such as immune diseases, inner-city decay, industrial innovation, and the like," explains University of Michigan computer scientist and MacArthur fellow John H. Holland in his slim, dense *Hidden Order*.



The idea of general laws capable of explaining systems as disparate as a sprawling city or the delicate development of an embryo is seductive—and controversial. Yet the claims by the complexity gurus don't stop there. In his exuberant new book, *At Home in the Universe*, University of Pennsylvania biologist and fellow MacArthur "genius" Stuart A. Kauffman argues that these fundamental laws create a "spontaneous order [that] is enormously greater than we have supposed." Just as the known laws of physics dictate a snowflake's exquisite six-pointed symmetry, he suggests, this natural order explains everything from the superiority of democracy and the path of technological development to the existence of life itself.

To Kauffman, whose tome careens back and forth between mathematical treatises and bull-session-like musings, the notion is tantamount to a religious conversion. No longer must we believe that life—or humankind—is a mere accident of evolution. The new science, he asserts, "may help us find anew our place in the universe... recover our sense of

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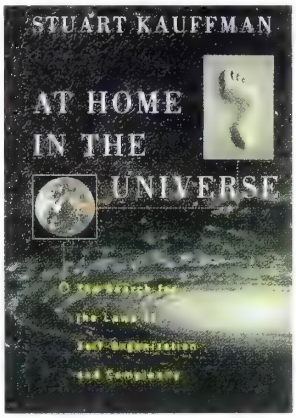
worth, our sense of the sacred..."

At the heart of such bold pronouncements is the conviction that computers offer a new and unique window into the real world. If simple mathematical rules can give rise to complex behavior in computer simulations, the reasoning goes, then similar rules may also apply to systems such as the economy.

Holland expands on this idea by first presenting an analysis of the characteristics shared by all complex systems. For example, nerve cells and companies alike might well be thought of as independent "agents." Each agent operates in groups as well as individually, participating in flows of information or goods. Each agent also has internal "goals" but can adapt to new surroundings. Holland then shows how agents' properties can be described by computer algorithms.



Kauffman casts a wider net. In sections that are tough going, he describes mathematical simulations of collections of chemicals, networks of genes, and systems that evolve in a way that boost the "fitness" of both individuals and the overall system.

Much of this work is on the cutting edge of computer science. Some of the results are tantalizing. Holland describes a stock-market simulation that he says mimics crashes and speculative bubbles better than classic models. Other simulations successfully model biological races to develop defenses and show that cooperation, with occasional bluffs, is the most effective strategy in a group.

But what most excites Kauffman is the notion that life is the inevitable result of nature's hidden order. His analyses of networks of interacting genes, for instance, show that the systems spontaneously organize themselves into just a few configurations. More evidence comes from simulated soups of chemicals, in which each substance is given the ability to catalyze other reactions. Almost magically, the soups create clumps of chemicals capable of replicating themselves—eerily reminiscent of real life. When he discovered these phenomena, "I knew that God had revealed to me a part of how His universe works," Kauffman gushes in Waldrop's book, *Complexity*, still the most readable account of the new science and its personalities.

These computer simulations are siliconic tours de force. But are they really uncovering general laws or new insights into humanity's problems? Neither book quite delivers on these grandiose claims. Holland's explanation for the lack of results: "We are only at the beginning of the search for general principles." Kauffman formulates a few general laws, but they're disappointingly trite. For instance, he says, models that resemble a company interacting with customers reveal that "you should not try to please all of the people all of the time, but you should pay attention to everyone some of the time!"

Not surprisingly, such examples are fueling skepticism about the central premise of computer-based complexity studies. Just because a simulation looks like a real phenomenon doesn't mean the mathematical rules that generate the simulation also underlie—and explain—real life. For instance, Kauffman's assertion that the striped patterns arising in broths of organic chemicals "may foretell the stripes of the zebra" is about as logical as saying that a lamp tells us something important about the sun, since they both produce light. Sadly, rules that apply to all complex systems are probably so general that they're useless in explaining how any one particular system works.

What's more, Kauffman's grandest claim—that life is the inevitable consequence of fundamental laws—remains unsupported. If "a metabolism will crystallize from the broth... whenever a collection of chemicals contains enough different kinds of molecules," as he asserts, then why did life apparently emerge only once in the earth's long history? And if these laws provide "order for free," as Kauffman repeatedly says, why did it take 3 billion years for single-celled creatures to evolve into more complex organisms? Kauffman remains unfazed by these uncomfortable facts, predicting that proof for his theory could be only a few years away. "We are hunting big game, seeking laws of complexity," he trumpets. The quarry may be more elusive than Kauffman believes, but it's still a provocative quest.

BY JOHN CAREY

Senior Correspondent Carey covers science issues from Washington.

BOOK BRIEF

REASON TO BELIEVE
By Mario Cuomo
Simon & Schuster • 191pp • $21

KEEPING FAITH

When Mario Cuomo tunes in C-S these days, he must wonder w planet he's on. Capitol Hill's Republ rulers view the New Deal he cheris as the foundation for the evil wel state. Eager revolutionaries revamping Medicare while dismant federal welfare and Medicaid progra

Well, Cuomo, perhaps America's n articulate apostle of liberalism, has enough. He has written a passion book that combines an unapologetic fense of his beliefs with an econo manifesto for like-minded Democr In *Reason to Believe*, the ex-New Y governor admits that top Democr have been "no match for the Republi leaders....Without stronger and m persuasive voices raised in opposit the incessant stream of glib and app ing shibboleths and generalities lo tempting to a lot of Americans."

Cuomo sees himself as just such voice. Despite last year's election feat, he is an ardent defender of gove ment—at a time when many Democr are scurrying away from FDR's N Deal and LBJ's Great Society. Of th programs, he writes: "To say they fai to improve upon the wretched social tastrophes created by the 150 years macho individualism t preceded them would foolish indeed."

Reason to Believe

Mario Cuomo

Cuomo takes aim at Ne Gingrich's Contract W America. But he lays out alternative agenda for red ing special-interest influe in politics and expanding f eral "investments" in edu tion, research, and sma business development.

Love him or despise hi Cuomo is an intellectual ant. The Democratic Party desperat needs a substantive voice to replace t sound bites and negativity that pass f public discourse today. Is an old-tir defender of the faith the right person his party's hour of need? Perhaps n Cuomo admits his thinking "may see like heresy" now. But it's natural f Democrats to be longing for a lost pa To quote one of Cuomo's favorite song "Where have you gone, Joe DiMaggio

RICHARD S. DUNHA

IT'S NOT IF. IT

Introducing computer ir you can't a overlo

Just don't have the time for power problems on your PC? Don't worry. They'll always make the time for you. It's not if a power problem will occur, but when. Due to household appliances, poor wiring, bad weather or even other office equipment, power problems are as inevitable as death and taxes. You can't run, but you can hide... behind APC.

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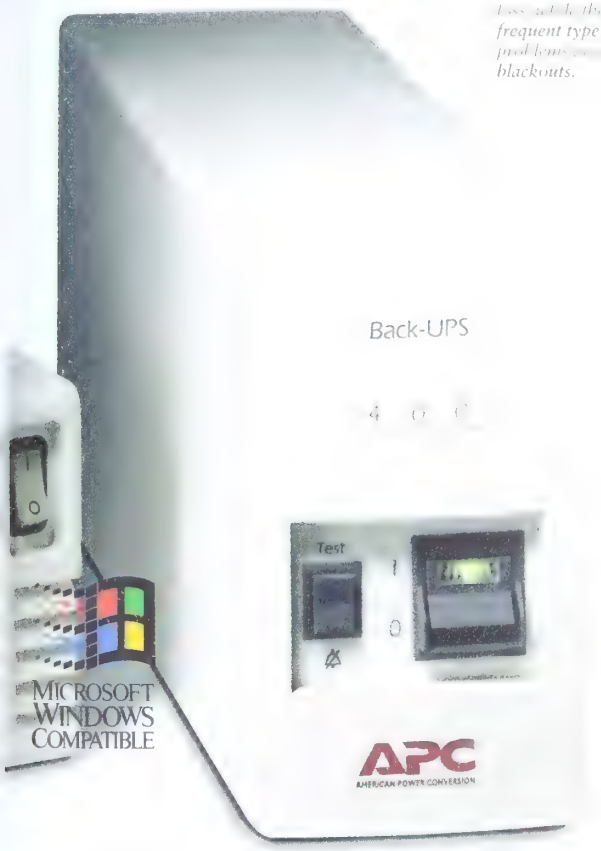
frequent type of po blackouts.



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Brands of UPS used? _____ # servers/PCs to be protected? _____

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[illegible] Graham

[illegible]

Carol Irving

[illegible]

Valentin Gonzalez [illegible]

[illegible] to recover. But we don't [illegible]

Tony Chen

[illegible]

Ray Lee

[illegible]

C. Jeffrey

[illegible]

Steve Higgins on ONLine

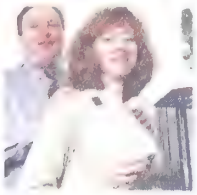
[illegible] the LAN tables on all PC's

Now have APC on all [illegible] Clean, Fast, Comm. Tech

UPS I had to put in at least two hard drives at $1000. With APC, no new hard [illegible]

S. Fairchild, ISP

"We used to believe all [illegible] alike... but when a storm hit every surge protector [illegible] for SurgeArrest. It's that made better of a product." Ro[illegible] on Sheila Russell



suppressors (which protect solely against hardware damage) are literally powerless to protect your PC from data loss.

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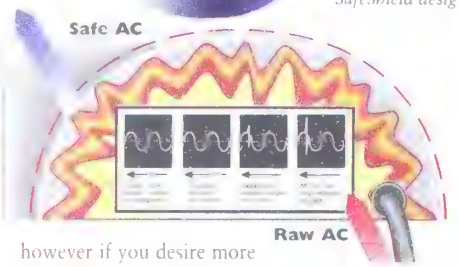

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e services, computer distributors, resellers and VARs. **Who is not eligible:**
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how to enter

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keting Computers Magazine at 212-536-6588 or Fax at 212-536-5353.

entry fees/deadlines

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BY PAUL CRAIG ROBERTS

CAPITAL GAINS: TIME FOR SOUND POLICY, NOT SOUND BITES

RHETORIC: Junking the capital-gains tax would benefit everyone, not just the rich—but so far, Democrats control the debate

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C

"The supply-side economists have delivered the largest genuinely free lunch that I have seen in 25 years, and I believe we would be a better society if we followed their advice." Who said that? Ronald Reagan? Jack Kemp? A voodoo economist? No, it was University of Chicago Professor Robert E. Lucas, the 1995 Nobel prize-winner in economics.

Professor Lucas' remark is of the greatest importance to the millions of Americans whom the Democrats and the media array against "the rich" when tax-cutting is under discussion. Liberals go after those who propose to reduce taxes on capital the way dogs go after red meat. It's a liberal shibboleth that lower taxes on capital only benefit the rich.

Supply-siders have shown that when you lower the cost of capital, you get more of it and that the benefits accrue to society as a whole in the form of higher labor productivity and higher incomes. Professor Lucas writes that "the analysis I have reviewed supports these claims: Under what I view as conservative assumptions, I estimated that eliminating capital income taxation would increase capital stock by about 35%."

What would that mean for Americans? In his Hicks Lecture at Oxford University, Professor Lucas states that "achieved over a 10-year period, such an increase would more than double the annual growth rate of the U.S. capital stock." He offers the following ways of comprehending the benefits that would flow from this: People would experience a gain in their economic well-being equal to twice the gain that would result from eliminating a 10% rate of inflation; it would be 10 times the gain from eliminating all product-market monopolies; and it would be 20 times the gain from eliminating the business cycle.

NO "GREAT SOCIETY." This would be no mean achievement. It would go far beyond any benefits that can be claimed by the liberals on behalf of income redistribution and government spending programs or by the conservatives in the name of lower deficits and interest rates.

After decades of experience with income redistribution and spending programs, we know for a fact that the liberals' claims were unfounded. Promised benefits did not materialize, but many unpromised problems and costs to society did. The "Great Society" ended in failure and left a legacy of almost intractable problems.

As for the benefits of a balanced bud interest rates peaked in 1981, when the d cit was $79 billion. Despite the rise in deficit and the national debt, interest rates day are less than half of their 1981 levels

The advantages of a larger capital st and the failure of social spending progra make the current budget dispute over tax and spending, with its overtones of shutt down the government, difficult to understa The capital-gains tax brings in a paltry sun $30 billion on a $1.5 trillion budget—at t cost of slower economic growth. But Repul cans are too mired in illogical distributio rhetoric to champion the abolition of this m guided tax. According to newspaper repor even Senate Finance Committee Chairm William V. Roth (R-Del.) of Kemp-Roth fa feels impelled to defend the Republican ta cut plan by estimating that 62% of the would benefit families and 27% would go ward promoting savings, investment, and e nomic growth.

SYMBOLIC CHILD CREDIT. Senator Roth, course, knows that promoting savings, inve ment, and economic growth benefits famili but Democrats still control the rhetoric, Republicans have to legislate a tax cut that "balanced" between "families" and "inve tors"—as if they were people with diamet cally opposed interests.

One unfortunate consequence of this illog is that the bulk of the Republican tax redu tion is being used for a $500-per-child cre (the rich excluded). Such a credit is mere p litical symbolism, not an economic-policy a tion. The incentive effects of the child cre are nil. Families and children would bene far more from a reduction in capital taxati that would in turn create opportunities f their futures.

Families are denied the capital they nee to maintain and raise their living standar because of irresponsible and uninformed di tributional rhetoric that no professional eco omist would support. The burden of incom taxation is borne by factors of productio Just as taxing capital reduces the productivit and thereby the earnings, of labor, taxing la bor reduces the earnings of capital. Distrib tionist illogic imposes a false dichotomy on symbiotic relationship and prevents soun tax policy. If Republicans are going to lea they will have to confront propaganda wit economics.

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Resume

BY GENE KORETZ

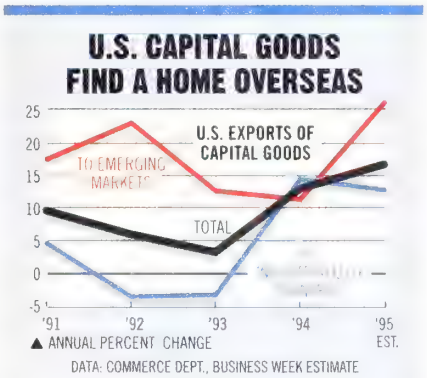
A TURNAROUND IN U.S. TRADE?

Watch the capital goods sector

Some observers are dubious, but economist Daniel E. Laufenberg of American Express Financial Advisors Inc. in Minneapolis thinks the sharp export-led drop in the U.S. trade deficit in August suggests a turning point in trade is near. The catalyst: growing U.S. capital goods exports combined with slowing U.S. equipment imports.

Despite lower demand in Latin America, U.S. capital goods exports to emerging nations are running 25% over last year's pace. And, aided by a weak dollar and America's high-tech prowess, capital goods exports are also up 15% to 24% in such weak industrial economies as Japan, Canada, and Germany.

Meanwhile, capital spending in the U.S. appears to be slowing significantly. In recent years, America's appetite for equipment imports has escalated in the wake of booming capital outlays coupled with tight domestic capacity. Now, as capital investment slows, says Laufenberg, "capital goods imports, which account for some 35% of total U.S. imports, are likely to stumble as well."



Other hopeful developments include signs that the U.S.-Mexican trade balance has stopped deteriorating, and a decline in motor vehicle imports, which should accelerate when a sharp drop in Japan's auto exports in September gets reflected in U.S. trade data.

The outlook, then, seems to favor at least a modest turnaround in America's trade position over the next six months—and a substantial improvement once Latin America joins Asia on a fast growth track. Already, note economists Donald H. Straszheim and John Praveen of Merrill Lynch & Co., some 45% of U.S. capital goods exports go to emerging nations. And with many Asian nations now facing infrastructure bottlenecks, sales of both traditional and high-tech U.S. capital goods are accelerating.

WHO GETS A REAL RAISE IN '96?

Asian managers will fare best

Although American and Canadian managers and white-collar professionals are slated to receive modest salary hikes next year, their counterparts in Asia will reap sizable gains in real terms. According to a survey by benefits consultant William M. Mercer Companies, U.S. and Canadian companies plan to boost their managers' salaries by an average 4.2% and 2.5%, respectively.

By contrast, planned salary hikes for Asian managers—running from 7.5% in Singapore to 11% in Korea and Thailand, 16% in the Philippines, and 25% in China and India—are all at least double the anticipated inflation rates. Even Japanese managers and professionals are expected to come out ahead, with 3% salary hikes in the face of 1% inflation.

IMPOSE TIME, PREVENT CRIME

Evidence that deterrence works

It's not surprising that increased arrest rates usually lead to a reduction in crime. But is that reduction due to deterrence or incapacitation? That is, do larger penalties (via increased detection or more severe sentences) induce criminals to commit fewer crimes, or do crime rates drop mainly because more criminals are locked up?

The issue, as economist Steven D. Levitt notes in a new National Bureau of Economic Research study, has important implications for the efficiency of severe "three strikes" sentencing policies. If crime drops mainly because criminals are taken off the streets, then prison populations will increase dramatically as new crops of undeterred criminals are caught and incarcerated. If deterrence is strong enough, however, severe penalties may lead to a decline in the incidence of crime and thus dampen increases in prison populations.

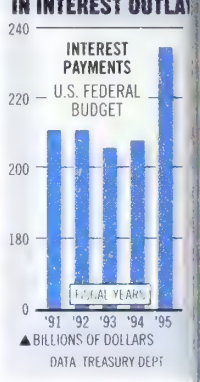
In his study, which examines seven categories of crime in 59 U.S. cities from 1971 to 1992, Levitt looked for idence that rising arrest and incarce tion rates for one type of crime lead increased commission of other types crime. This would suggest that crimin act rationally and switch to less "cost criminal endeavors when the "price" c specific activity rises. In other wo there is a deterrence effect beyond incapacitation effect. On the other ha if crime rates drop across the boa the primary cause is likely to be inc ceration.

Interestingly enough, Levitt fou strong deterrence effects for all crin except rape and murder. Thus, the e dence suggests that more severe puni ment does successfully deter poten criminals from engaging in target criminal activities. Indeed, the state Washington, whose voters adopted three-strikes law in 1993, has seen significant drop in violent crime.

WILD CARD IN THE BUDGET

Interest costs can be volatile

It has hardly been mentioned in t current U.S. federal budget deba but economist William V. Sullivan Jr. Dean Witter Reynolds Inc. thinks t estimated $27 billion rise in intere expenses in the fiscal year just en ed deserves more attention. In the three prior fiscal years, falling interest rates held down interest outlays despite a $1 trillion rise in the gross federal debt. But the party ended in early 1994 when the Federal Reserve decided to reverse course and push up interest rates, thus raising the Treasury's debt servicing costs.



Sullivan concedes that the Fed's shi back toward monetary ease in July this year suggests that fiscal 1996 w see a smaller increase in interest ou lays. But he can't help worrying abo the dangers on the upside.

"If market rates were to rise ju 150 basis points to levels prevailing the early 1990s," he warns, "the cost servicing the growing national del could rise by $50 billion in short order

JAMES C. COOPER & KATHLEEN MADIGAN

OUSING'S FATE ANGS IN THE BUDGET BALANCE

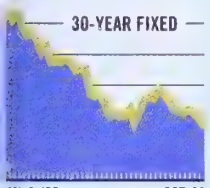
U.S. ECONOMY

As you tote up the likely winners and losers in the 1996 eral budget battle, don't forget homebuilders. No, re are no big hits from spending cuts or special goodies in the works, but if all goes as planned, er long-term interest rates could give the housing ustry new life next year.

Clearly, the momentum to balance the budget by 2, or shortly thereafter, is enormous, and the effort haping up to be the most credible to date. All this es well for lower interest rates, including those for rtgages. Market watchers generally agree that the d market will embrace the long-run implications of final budget package. Those include expectations of er inflation and a gradual decrease in the supply of v Treasury securities hitting the market.

However, the bond market will also keep a sharp eye on the short term. The immediate fiscal drag on the economy from the budget deal is shaping up to be barely, if at all, discernible. And depending on when the tax and spending cuts kick in, the package could even end up slightly stimulative for fiscal 1996—something the bond rket would dislike.

MORTGAGE RATES HEAD SOUTH



A FEDERAL HOME LOAN MORTGAGE CORP

To some extent, a deficit-cutting deal is already ced into long-term bond yields, and thus mortgage es (chart). If the bond market likes the package, lds still appear to have room to dip lower. Ten-year asury bonds, the benchmark for fixed mortgage es, have yielded 2.6%, on average, above current in- ion. With inflation now under 3% and likely to re- in low, and with the yield on the 10-year bond hov- ng at 6%, yields below 5.5% seem possible.

NGRESS AND THE WHITE HOUSE have to get ir acts together, though. Votes on both the Senate l House versions of the budget are due shortly, but h the White House expected to veto the resulting onciliation bill, a final package could be in limbo il December.

Before then, the Treasury will bump up against its 9 trillion debt limit, and on Nov. 15 it will need $25 ion in fresh cash to make semiannual interest pay- nts on its debt, not to mention $205 billion to pay off turing debt and $100 billion or so to run the government. An outright default seems unlikely, but the bond market is watching closely.

Analysts generally agree that when it's all over, the feared "train wreck" is more likely to be a fender-bender. But the path toward deficit reduction will be clear, and therein lies the chance for lower rates.

A FURTHER DECLINE in mortgage rates would come at a good time for homebuilders. This year's lower rates have strengthened housing demand and starts. Sales of existing homes edged up 0.7% in September, to an annual rate of 4.15 million. The increase was the fifth in a row. The gains have been fueled mainly by cheaper mortgages.

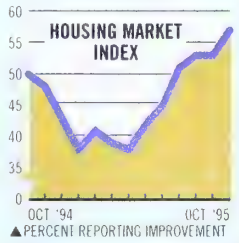
The rate on 30-year fixed mortgages fell from 9¼% last December to a 20-month low of 7.38% in mid-October, according to the Federal Home Loan Mortgage Corp. That's enough to drop the monthly cost of a $100,000 mortgage from $820 to $690.

But until the bond market sees the final budget package, rates may hold steady. And without further rate declines, housing activity is likely to stabilize in coming months near current levels.

Mortgage applications for home purchase, as opposed to refinancing, are already leveling off. New filings had picked up in September, but by mid-October, they have drifted back to a level slightly below their average of the past three months, according to data from the Mortgage Bankers Assn.

Housing starts have plateaued as well. They edged lower in September, to an annual rate of 1.39 million, after dipping in August. That's a respectable level of activity, but keep in mind that starts are still 4% below their year-ago pace.

BUILDERS SEE IMPROVING CONDITIONS



DATA NATIONAL ASSOCIATION OF HOME BUILDERS

Even so, builders seem upbeat about current market conditions. The housing market index of the National Association of Home Builders rose some 7% in October, to 57% (chart). A reading over 50% means that more builders see good conditions than see a poor climate in the areas of present sales, expected demand, and traffic through model homes.

The pickup in demand since spring has helped to clear away excess inventories of unsold homes, so builders are now freer to respond to new demand. However, they remain cautious in the face of pros-

pects for only moderate growth in the economy generally and in employment in particular.

Builders report that speculative building—homes started without a specific buyer—remains at a low ebb, even as borrowing costs have fallen slightly as a result of the July 6 cut in interest rates by the Federal Reserve.

Homebuilders also will continue to face some unfavorable demographics. The population aged 25-34, the prime first-time home-buyer market, has been declining since 1990, and it will keep falling into the next century.

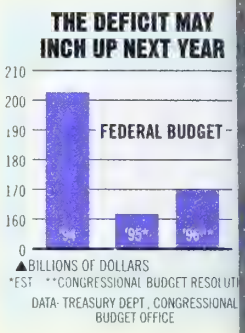
BUT WHILE THE BOND MARKET would be pleased with a long-term stab at deficit reduction, lower long-term interest rates next year are not necessarily in the bag. In an election year, the temptation to bring the tax goodies forward and suffer the painful spending cuts later will be great.

September closed out the 1995 fiscal year. The Treasury delayed its September budget report, originally set for Oct. 23, as usually happens at fiscal yearend, but analysts expect a September surplus of about $8 billion. That would bring the 1995 deficit to about $162 billion, down from $203.3 billion in 1994.

The expected 1995 gap will be the lowest since 1989 and the smallest in relation to gross domestic product since 1979. The 1996 deficit is expected to be a few billion higher, depending on the final budget compromise (cha

However, the way to look at fiscal restraint or st ulus is the so-called standardized employment deficit a percentage of potential GDP. In layman's terms, it's federal deficit adjusted for the swings in the busin cycle. Recent estimates by the Congressional Bud Office put the 1995 estimate at 2.7% of GDP.

However, estimates by HSBC Washington Analysis show that, depending on the mix of tax and spending cuts, the 1996 percentage could be anywhere from 2.3%, a modest move toward restrictiveness, to greater than 3%, a slightly stimulative move. Decimal points aside, the analysis suggests little or no fiscal drag from the budget next year.



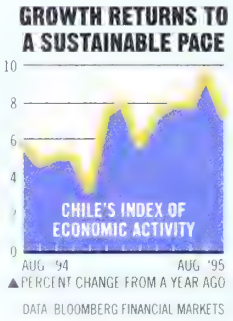
Compared with conventional wisdom, which sa that deficit reduction will start hitting the econo immediately, that lack of fiscal restraint would bode w for economic growth generally next year. As long as t budget in succeeding years cuts the deficit in credi ways, both the bond market and the Federal Reser appear poised to provide the economy with lower rat If so, the housing upturn will hang around for at lea another year.

CHILE

CAN CHILE STAND THE HEAT?

After two quarters of fast growth, Chile's economy continues on a brisk pace. However, strong domestic demand is worsening the trade deficit as well as helping to raise the inflation rate.

The latest sign of robust growth comes from Chile's monthly index of economic activity, reported under the acronym IMACEC. The August IMACEC rose 7.3% from a year ago, lifted by surging imports. The rise was much lower than the 9.5% gain in July—the biggest in 2½ years—but the reading still implied a fast, yet sustainable, rate of economic growth (chart). Real gross domestic product grew by 7.5% in the year ended in the second quarter, the strongest rate in two years. The official forecast is that real GDP will grow 7.5% in 1995 and slow to 6.5% in 1996.



One problem for Chile is waning export growth. Third-quarter exports were up 33% from a year ago, below the 42% gain of the second. The highest copper prices in five years helped to boost commodity exports, but since mid-August copper prices have fallen 9%. And the peso strengthened against the U.S. dollar in 1995's first half, putting most exporters at a price disadvantage.

Meanwhile, healthy domestic demand is bringing in a wave of imports. Third-quarter imports rose 37% from a year ago, faster than the 30% pace in the second. As a result, Chile has run a monthly trade deficit from June to September.

Chileans have lived through double-digit inflation or worse for the past 60 years, but it's an experience most want to forget. That's why the recent runup in inflation is a worry. On Oct. 18, the Central Bank lifted its forecast for the October increase in consumer prices to 0.6%, double its previous estimate. That would mean that inflation is running at a year-over-year pace of about 8½%, well above the Bank's 1995 target of 8%. The possibility of tighter monetary policy has weakened Chile's financial markets. Some calm returned after the August IMACEC, but higher interest rates may be the best way for Chile to avoid another devastating inflation spiral.

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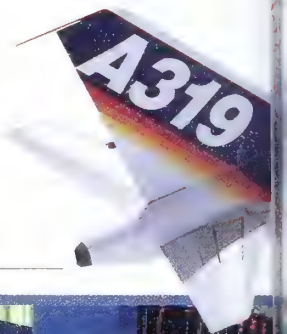
INVESTIGATIONS

A WORLD OF GREASED PALMS

Inside the dirty war for global business



Intrigue fairly leaps off the pages of the classified U.S. government report. A German electronics giant pays bribes to win export sales. France demands 20% of Vietnam's telecommunications market in exchange for aid. A European aerospace company threatens to block European Union membership for Turkey and Malta unless their national airlines purchase its planes.

It's all part of a nasty, multibillion-dollar war being waged over global markets. A secret Commerce Dept. study, newly prepared with the help of U.S. intelligence agencies, catalogs scores of incidents of bribery, aid with strings attached, and other improper inducements by America's trading partners. In the case of strings-attached foreign aid, the deals may violate international trade pacts. And the cost of such practices to the U.S. economy appears enormous. In 1994 alone, U.S. intelligence tracked 100 deals worth a total of $45 billion in which overseas outfits used bribes to undercut U.S. rivals, the study says. The result: Foreign companies won 80% of the deals.

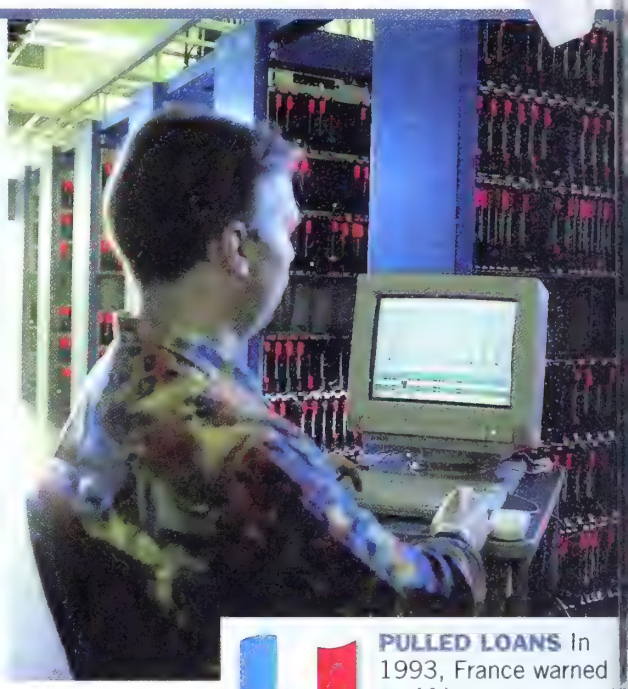
SANCTIMONIOUS? Among the main culprits are some of America's staunchest political allies: France, Germany, and Japan. The corporations involved aren't cited by name in the study, which has been in the works for months and key parts of which were reviewed by BUSINESS WEEK. But government sources identify premier European high-tech companies—including Germany's Siemens, France's Alcatel Alsthom, and the European airframe consortium Airbus Industrie—as among the major practitioners. Foreign governments and companies, of course, gripe that the Clinton Administration has been doing lots of aggressive advocacy of its own to win deals for U.S. business. "Each time we win a deal, it's because of dirty tricks," says an Airbus official with bitter sarcasm. "Each time Boeing wins, it's because of a better product."

Indeed, many officials overseas view the U.S.'s holier-than-thou attitude about shady business practices as naive and hypocritical. As word of the report's contents gradually leaks (some 50 copies recently were distributed to Congress and key agencies), U.S. trading partners may be angered to learn how closely American spies are tracking their dealings. Indeed, the growing role of the CIA and its sister shops in commercial information-gathering already is controversial, with critics contending that the spies are inappropriately trying to justify a $28 billion budget in the post-cold-war era. But former CIA General Counsel Elizabeth Rindskopf says the CIA is simply responding to demands from other U.S. government agencies for information to help level the global playing field.

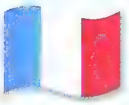
There's more to it than that. "As the importance of geopolitical struggle has declined, conflict has found a new home

UNFAIR COMPETITION

A secret report prepared by the Commerce Dept., with the help of U.S. spies, cites scores of shady business deals that have cost American companies billions in lost contracts during the past two years



BRIBES A German high-tech company, identified by sources as Siemens, allegedly offered bribes in connection with bids on 11 contracts from 1987 to 1994. It won 7 of the deals. Siemens won't comment.



PULLED LOANS In 1993, France warned an African government that it would withdraw government guarantees on outstanding loans if Alcatel didn't win a $20 million telecom switching contract. Alcatel declined comment. Government officials couldn't be reached.

cious," says Joel Johnson, international vice-president for the Aerospace Industries Assn. of America.

During the next

POLITICAL THREATS Officials of Airbus Industrie, the European airframe consortium, threatened to block entry to the European Union for Turkey and Malta if those nations' carriers bought U.S. planes. Airbus denies the charge.

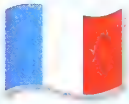
; Edward N. Luttwak, senior fellow he Center for Strategic & Internaal Studies. "Commercially, the atmosre has become envenomed." Economends tell the tale: The 3. is more dependent n ever on exports to its economic growth. ope and Japan are sadl by slow growth.

Heightened global comtion adds to the tempon to seek advantages ough questionable tac—particularly in key ors such as aerospace, ere demand is weak. mpanies and governnts are more willing to ort to unconventional thods to make a sale ause any sale is predecade, the pervasiveness of such practices spells trouble for U.S. companies girding to compete for an estimated $1 trillion worth of overseas infrastructure projects. American business already is handicapped by the U.S.'s comparatively puny spending on export promotion. The Commerce report, which also reviews legitimate competitive practices such as trade missions and financial aid to exporters, reveals a stark gap. In 1994, for every $1,000 of gross domestic product, France spent more than 17¢ on export-promotion programs; Japan, more than 12¢. In contrast, the U.S. spent 3¢.

DEBT FORGIVENESS To help a Japanese company win a $30 million supercomputer order from Brazil, the Bank of Japan said it would credit the purchase against Brazil's debt to Tokyo. Bank of Japan says it knows nothing of the incident, but NEC did win such a contract.

Even so, Republican trade hawks on Capitol Hill want to slash funds for Commerce's trade programs. Commerce officials hope the competitive-practices report will help derail those moves. It's certainly a timely showcase for Commerce Secretary Ronald H. Brown to reemphasize his role as roving advocate for American business. "The findings are alarming," Brown told BUSINESS WEEK. "There is no question that we have been dramatically outgunned by our global competitors, and many of those competitors use, to be kind, unsavory practices."

WADS OF CASH. But to some European executives, the Clinton Administration doesn't shy away from questionable arm-twisting. An Airbus official calls President Clinton's 1993 phone call to King Fahd of Saudi Arabia to lobby for Boeing Co. and McDonnell Douglas Corp. a "blatant" disregard for the rules. "The power of the American government is far greater than any European government," the official says. Too bad, retorts one U.S. official: "If we're going to provide a security umbrella for a country, it's reasonable to expect our companies to get treated fairly."



TIT-FOR-TAT AID Former French President François Mitterrand, leading a trade mission to Hanoi, demanded a 20% share of Vietnam's telco market as a condition of French foreign aid. Neither governments' officials could be reached.

Certainly, not all U.S. companies have clean hands. In October, a former vice-president at Lockheed Martin Corp. was sentenced to 18 months in prison and a $125,000 fine for bribing a member of the Egyptian Parliament to win an order for three C-130 cargo planes. The case is surprising because Lockheed was at the center of a bribery scandal in Japan nearly 20 years ago and has signed a consent decree to refrain from such practices. That paved the way for the 1977 Foreign Corrupt Practices Act, which bars U.S. companies from paying bribes to win business.

Some U.S. companies find creative ways to skirt the law. To secure a mining venture in a developing nation, an American company recently flew officials from the country to the U.S., put them up in a fancy hotel for a week, and gave them a wad of cash for a shopping spree. A U.S. intelligence source says the trip is problematic: "What's the difference between giving an official shopping money and handing him an envelope of cash in his office?"

But U.S. and other trade experts have little doubt that overseas compa-

nies are more likely to offer bribes because their cultures and legal systems permit it. In France, foreign payments to middlemen are considered legitimate business tax deductions. Germany has similar rules, though officials in Bonn say they might junk them if there were an international accord to outlaw bribery.

Even so, there's little U.S. support for easing antibribery laws. Instead, many American executives are urging the Administration to mount an aggressive campaign to get foreigners to play more by U.S. rules. For starters, open up to public scrutiny the contracting process for projects funded by multilateral development banks, says Calman J. Cohen, vice-president of the Emergency Committee for American Trade, a group of 60 chief executives of Ame ca's leading exporters.

U.S. officials vow to fight for re And foreign trading partners may that a good idea. As long as everyo including the U.S.—promises to by the rules.

By Amy Borrus in Washington, Stewart Toy in Paris and Peggy Trautman in Bonn

TINKER, TAILOR, SOLDIER, BIOTECH SPY?

On a dreary day last December, two men entered a hotel room in the Boston suburb of Framingham, Mass. One wore the expensive clothes of a prosperous businessman, the other had the tweedy attire of a research scientist. Inside the cooler they carried was a tiny frozen cluster of genetically altered hamster ovary cells, capable of producing the blockbuster drug known as erythropoietin, or EPO. Waiting to collect the cells was an FBI undercover agent posing as a buyer for Russia's KGB.

So began the nation's first industrial espionage case to generate criminal indictments for the theft of biotechnology. Indictments in the case, unsealed on Oct. 18 by the U.S. Attorney in Boston, underscore just what a juicy target America's world-leading high-tech industries are for spies. The thieves allegedly stole a cell line—a sort of DNA factory small enough to fit in a test tube—that turns out EPO, a protein that stimulates red-blood-cell production. Drugs incorporating EPO rang up sales of $970 million in the U.S. last year.

INDIAN CONNECTION. Numbers like those led Subrahmanyam M. Kota, the businessman in the Framingham hotel room, to shift his spying efforts from military to industrial secrets, prosecutors contend. They have charged Kota with espionage, contending that he gathered classified information from Massachusetts companies and sold it to the KGB. Kota's previous job as a software manager for Data General Corp. put him in the heart of Boston's high-tech sector, though Data General itself appears not to have been a target. Kota left DG in 1992.

Kota, now a software consultant, denies the charges. His lawyer says Kota has refused a plea-bargain offer—despite facing a maximum of 25 years in prison and a $750,000 fine. Says Kota: "The most serious run-in I have had with the law [before the indictment] is a parking ticket."

Federal prosecutors, however, paint Kota as less than law-abiding. The FBI traces his contact with the KGB to 1985—eight years after his arrival in the U.S. from his native India—when he met with someone employed by the Soviet espionage agency in Bermuda and, according to the indictment, handed over unspecified documents. He allegedly was paid $5,000. The feds charge he got $15,000 more for documents he gave the KGB in Lisbon the following year.

UNDER INDICTMENT
Kota denies he helped steal genetically altered cells, but the FBI says he also sold classified material taken from companies to the KGB

In 1988, Kota formed a crucial alliance with a prominent Indian businessman, Aluru J. Prasad, managing director of Hyderabad Batteries Ltd., which among other things makes batteries for the nascent Indian space program. On Oct. 8, Prasad was arrested on federal wire and mail fraud charges. The Justice Dept. contends Prasad worked for the KGB. Prasad's attorney says his client denies that and plans to fight the charges.

Along the way, Kota also hooked up with a research scientist named Vemuri Bhaksar Reddy, another Indian immigrant. The government charges that Reddy—the tweedy scientist in the Framingham hotel room—stole the EPO cells in 1988 from his employer, Integrated Genetic Inc. in Framingham. The theft went undetected a the time, and court documents don't say why Reddy might have waited six years to sell th cells. Reddy's lawyer says the government has "misconstrued" his client's involvemen with Kota.

Integrated Genetics contends tha developing and pro ducing the stolen cells from scratch would cost $100 million to $200 million. The material stolen by Reddy "may be the most efficient cell line in the world, in terms of yield," says Mark A. Hofer, general counsel of Genzyme Corp., which acquired Integrated Genetics in 1989. Not that owning it did Genzyme much good: The race to patent the EPO cell line was won in 1989 by Amgen Inc., and Genzyme is blocked from selling drugs containing it.

Recognizing EPO's potential value, the indictment says, Kota agreed to sell it to the undercover FBI agent for $300,000. Unfortunately for him and Reddy, other agents were monitoring their every move by closed-circuit TV when the alleged sale was finally made.

By Paul C. Judge in Boston

FIDEL WITHOUT FATIGUES Castro makes his case to CBS's Rather—and he's courting U.S. execs who want to move into Cuba

3A

S. BUSINESS ISN'T AFRAID) SHOUT *CUBA SI!*

ecutives are no longer cowed by anti-Castro hard-liners

t the Manhattan headquarters of the Council on Foreign Relations, a half-dozen titans of U.S. industry ed Cuban President Fidel Castro at rmal supper on Oct. 21. That after-ı, demonstrators had clashed near U.N. over the centerpiece of U.S. cy toward Cuba, the 35-year trade argo. But the corporate chieftains en't fazed. "The embargo has been a l failure," declared Archer Daniels land Co. Chairman Dwayne O. An-ıs. "It ought to be ended."

ı his five-day visit to New York, tro, often sporting ness suits instead ıis customary fa-es, met with more ı 200 U.S. business cutives. It was a arkable whirlwind 'tship, and not just the sheer volume apitalist brass. For ıdes, U.S. compa-, leery of boycotts denunciations by d-liners, have left ıa policy to politi-s and Cuban exile ıies. Now, some 3. chieftains are cing known their ıleasure with U.S. cy—and they're 'ting to be heard.

On Oct. 19, the Senate passed a bill sponsored by Representative Dan Burton (R-Ind.) and Senator Jesse Helms (R.-N.C.) to tighten the embargo. Missing in the legislation, though, was a key provision that would have allowed Cuban-American owners of property expropriated by Castro in 1960 to pursue claims in U.S. courts against foreigners buying stakes in their Cuban property. U.S. businesses had lobbied against the provision, which would have diluted their more than $5 billion in claims.

The gutting of the Senate bill also heartens execs opposed to the embargo, which has kept U.S. companies on the sidelines as foreign rivals carve out shares of the Cuban market. "The defeat of the main provision in the Helms bill is so stunning that this may give us some courage," says Peter Blyth, president of Radisson Hospitality International, who favors easing the embargo and is eyeing tourism opportunities.

TELECOM DEAL. Indeed, there is a growing conviction among some executives that current U.S. policy is counterproductive. "I don't believe isolating Castro has worked for 35 years," says Stephen J. Green, chairman of Samsonite parent Astrum International Corp. Howard M. Dean, head of Dean Foods Co., says the U.S. should allow food shipments even before settling issues like compensation for expropriated property and human rights—and is "really ready" to begin sending milk from his Miami plant.

The flow of foreign business investment into Cuba fuels U.S. executives' frustration. Foreign companies have invested close to $2 billion since 1989 in tourism, mining, and other industries. While four U.S. telecom companies carry long-distance calls to Cuba, for instance, they are shut out of bigger local deals. Instead, Mexico's Grupo Domos and Italy's Stet International have a monopoly on domestic phone service, in partnership with Cuba's phone company.

Meanwhile, there are signs that the island's economic slide, a one-third decline in GDP touched off by the 1989 cutoff of Soviet support, has bottomed out. The Cuban peso, which sold on the black market at 150 to the dollar in April, 1994, has climbed to 25. Farmers markets have made food more widely available. If Cuba's economy improves, it's likely to attract still more non-U.S. investors. "It's too late already" to recoup some of the business lost to Canadians, Mexicans, and Europeans, says Andreas. But better late, he adds, than never.

By Gail DeGeorge in Miami and John Pearson in New York, with bureau reports

CEOs ON CUBA

ARCHER DANIELS MIDLAND Chairman Dwayne Andreas, who met with Castro in New York on Oct. 21, strongly opposes the embargo, which he derides as "a total failure." He predicts it will be eased early in the next U.S. Presidential term.

CABLE NEWS NETWORK President Tom Johnson says Cuba is willing to let CNN and the Associated Press set up news bureaus in the country. The Clinton Administration is holding out for wide access for U.S. news organizations.

TANDY CEO John Roach thinks that as long as Castro is in control, a thaw in U.S.-Cuba relations is unlikely. "Castro has made it very clear that he does not plan to change his ideology and that he plans to remain in office," Roach says.

RADISSON President Peter Blyth and other tourism executives favor easing travel restrictions as a first step to better relations. He sees opportunities operating hotels, travel services, and cruise ships in Cuba.

DATA BUSINESS WEEK

AMD'S SANDERS: *"We just had to a way to punch above our weight*

DEALS

INTEL WON'T FEEL THE HEAT FROM THIS FUSION

Advanced Micro's NexGen merger isn't enough to close the gap

Can anything slow down Intel? Jerry Sanders hopes his latest deal will finally do the trick. On Oct. 20, the chairman of Advanced Micro Devices Inc. (AMD)—Intel's chief competitor—announced a surprise deal to buy tiny rival NexGen Inc. for about $900 million in stock. The big prize: a coming NexGen chip that, for the first time, could rival the latest of Intel Corp.'s microprocessors, the silicon brains of most personal computers. Crows Sanders: "This will be the closest we have ever been to Intel."

Closer, but no cigar. For all of Sanders' optimism, the marriage of convenience shows one thing clearly: how powerful Intel has become and how weak its rivals remain. The merger may spur even more consolidation: Rumors suggest that Cyrix Corp., another Intel rival, could be acquired by IBM or Korea's Samsung Group—although they all deny a deal is in the works. Concedes Steve Tobak, Cyrix' marketing vice-president: "People are really getting discouraged about the prospect of an Intel alternative."

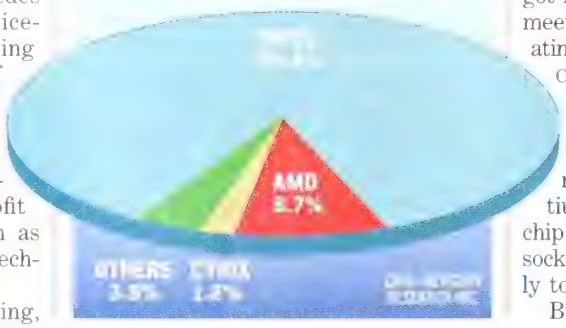
A lot is at stake—and not just because PC microprocessors are a $12.6 billion market. Intel microprocessors command up to 80% profit margins—margins chipmakers such as AMD need if they're to stay on the technology treadmill.

So far, despite a decade of trying, the Sunnyvale (Calif.) company has only captured an estimated 8.7% of the market this year; Intel has 85.6% (chart). AMD remains stuck in the lower-margin and rapidly shrinking 486 chip market. Worse, it's losing ground: On Oct. 10, AMD reported third-quarter profits that were off 33%, to $56.2 million, from 1994 on sales that were up only 9%, to $590.4 million. The profit drop was due mostly to Intel's relentless price-cutting on its 486 and flagship Pentium chips. And there's no relief in sight. Says Cowen & Co. analyst Drew Peck: "It's going to be grim for AMD throughout 1996."

Things would be even grimmer for NexGen had it stayed independent. It has the only rival to the Pentium chip on the market. But because its chip a different arrangement of wires co out of it, can't use all the stan components Intel's Pentium can use. A result, few major PC makers have b it. On Oct. 24, NexGen said that its position had dropped a shocking 8 just one quarter, to $5.5 million.

LAGGING BEHIND NO. 1

TOTAL MARKET IN INTEL-STYLE MICROPROCESSORS $12.6 BILLION



Meanwhile, Intel keeps barrel along—happy, says Intel Senior Vice President Paul S. Otellini, to have less rival. On Oct. 16, it logged a jump in third-quarter profits to $ million on sales that were up 46 $4.2 billion. And on Nov. 1, it will introduce the Pentium Pro, a faster suc sor to the Pentium.

"THAT'S BRILLIANT." Just six mo ago, it looked as if Sanders migh closing the gap. As clones of Intel chips raked in record profits, engin were on track to introduce a Pentiu val by yearend. But troubles brewing. AMD's new K5 chip, design be 30% faster than comparable tiums, fell well short. Mike John AMD's chief designer, admits the y K5 team failed to devise adequate ware tests, so the chip ran real grams more slowly than expected.

Month by month, delays mou AMD had to take engineers off the generation K6 project to help with making it doubtful the K6 could be pleted soon enough to challenge In

NexGen was running into tro too. Once dubbed "Nevergen" fo nine-year record of empty promise come out with an Intel alternativ got on track in September, 1994, b troducing the first Pentium rival— getting IBM to manufacture it. But remained minuscule next to Intel's. spite raising $48 million in an in public offering in May, it was run out of cash. By midsummer, it was ing everything from a secondary offering to an investment by Sams

Then Marshall Cox, a NexGen b member and former employee of San got involved. He arranged for Sande meet Vinod Dham, NexGen's chief ating officer, and NexGen Chairman CEO S. Atiq Raza in early Sep ber. Sanders was impressed NexGen's technology—especial chip in development that promise match Intel's next-generation tium Pro. But he had big doubts: chip didn't fit into a standard Pen socket. It needed custom PC designs ly to turn off most large PC makers.

But Dham had a surprise. As soo

arrived in May, he redesigned the) so it might even do Intel one bet- It could plug into the same socket ı Pentium and thus use standard PC ts—yet it would run as fast as the ; Pentium Pro. Sanders' response, ılls Dham: "That's brilliant."

ndeed, in NexGen, AMD gains am- ıition to fight Intel. Mainly, it gets a) to match Intel's best at least a year earlier than it would have on its own. And it is now only a year behind Intel—vs. three years back on the Pentium. Says Linley Gwennap, a former chip designer and editor of newsletter *Microprocessor Report*: "This really puts the heat on Intel to keep executing."

Problem is, AMD and NexGen still have months of work to tweak the new chip to fit in Pentium sockets and run on AMD's factory process. Sanders makes no excuses: He needed NexGen, and without it, he faced falling behind Intel for good. "We just had to find a way to punch above our weight," he says. But unless Sanders can parry better than he has so far, Intel's punch still may knock him woozy again.

By Robert D. Hof in Sunnyvale, Calif., with Peter Burrows in San Francisco

ECUTIVE SUITE

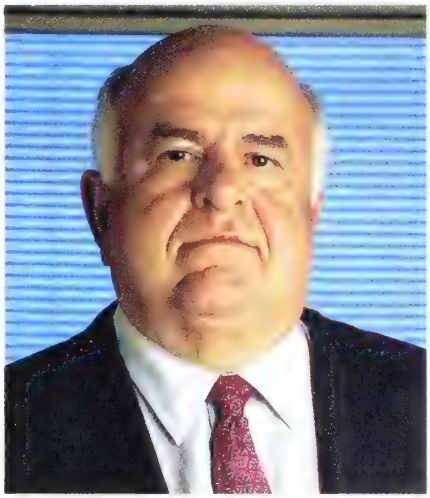
AUSCH & LOMB'S BOARD UTS ON ITS GLASSES

3USINESS WEEK story sparks a probe of CEO Dan Gill

ife just got more complicated for Bausch & Lomb Inc. Chief Executive Officer Daniel E. Gill. Under pres- e sparked by a BUSINESS WEEK Cover ry (Oct. 23) detailing a pattern of ac- nting and ethical abuses at B&L, the ıpany's somnolent board is waking up. At a 6½-hour meeting on Oct. the board grilled Gill and oth- top executives, then decided orm a committee of four out- e directors to investigate. though we have no reason to ieve there was a systemic blem," says retired banker liam Balderston III, who will ir the committee, "we are y seriously concerned about assertions made in the article ut our practices."

:-OPENERS. While corporate ernance experts applaud the rd's move, many contend it uld have come sooner. Most the concerns relate to 1993, en B&L managers engaged in aft of questionable practices, including ing invoices and secretly assuring ributors they didn't have to pay for ıds that were shipped. The tactics kfired in 1994, when B&L reported first decline in profits after 12 aight years of double-digit growth, l the Securities & Exchange Com- ssion launched an investigation into company's accounting practices.

Convinced at the time that the prob- ıs were caused by a few divisional ecutives who since have left, direc- s kept Gill in place. They did press and obtain tougher financial controls l new ethics guidelines. And early s year, the board's audit committee efully reviewed B&L's 1994 financials. But several directors concede that some elations in the BUSINESS WEEK article, such as allegations that a Miami unit may have indirectly aided money laundering, were news to them. "That's why we formed the committee, to look into these things more thoroughly," says Balderston. The committee will examine whether executives were candid with directors about the reasons behind the accounting problems, and the extent to which they were caused by a culture in which results were demanded at virtually any cost.



GILL: *Did he know about inflated sales?*

There may be another reason for the probe: the CEO's reputation has been severely damaged. If the board decides to keep him, it must establish that he wasn't culpable in the accounting brouhaha. "There's a cloud over the management and the board," says John M. Nash, president of the National Association of Corporate Directors, a nonprofit body devoted to encouraging sound practices among corporate boards. "It's better to clear the air one way or another." In a statement to employees, Gill welcomed the probe: "We look forward to the conclusion of their work so we can put these issues behind us once and for all."

Gill also is feeling the heat from investors. B&L on Oct. 18 announced disappointing third-quarter earnings and told analysts fourth-quarter profits would likely be lower still. B&L's stock, which had dropped from a recent high of 44 in mid-September, sank to 36 after the news. "This company is inept," says one big institutional holder of B&L stock. "We have clearly conveyed our disappointment and discouragement to the company and to several directors. It's beyond me why they haven't already thrown Gill out of there."

Meanwhile, the SEC investigation continues. Sources familiar with the inquiry believe the agency is focusing on B&L's contact-lens division, a hotbed of questionable practices. One previously unreported practice being probed: Whether B&L inflated sales by offering some distributors hidden discounts, recording the full amount as revenue, and rolling over the shortfall as an unpaid bill for quarter after quarter. B&L says it has "adequately addressed" the unit's problem.

Sources say the SEC is aiming to determine whether Gill knew of these and other shenanigans. Given the layers of management insulating him, he may well be cleared. But the burden of proof for B&L's board is much lower: Did Gill create a climate in which such practices were widespread? If so, the inquiry may be a step toward his ouster.

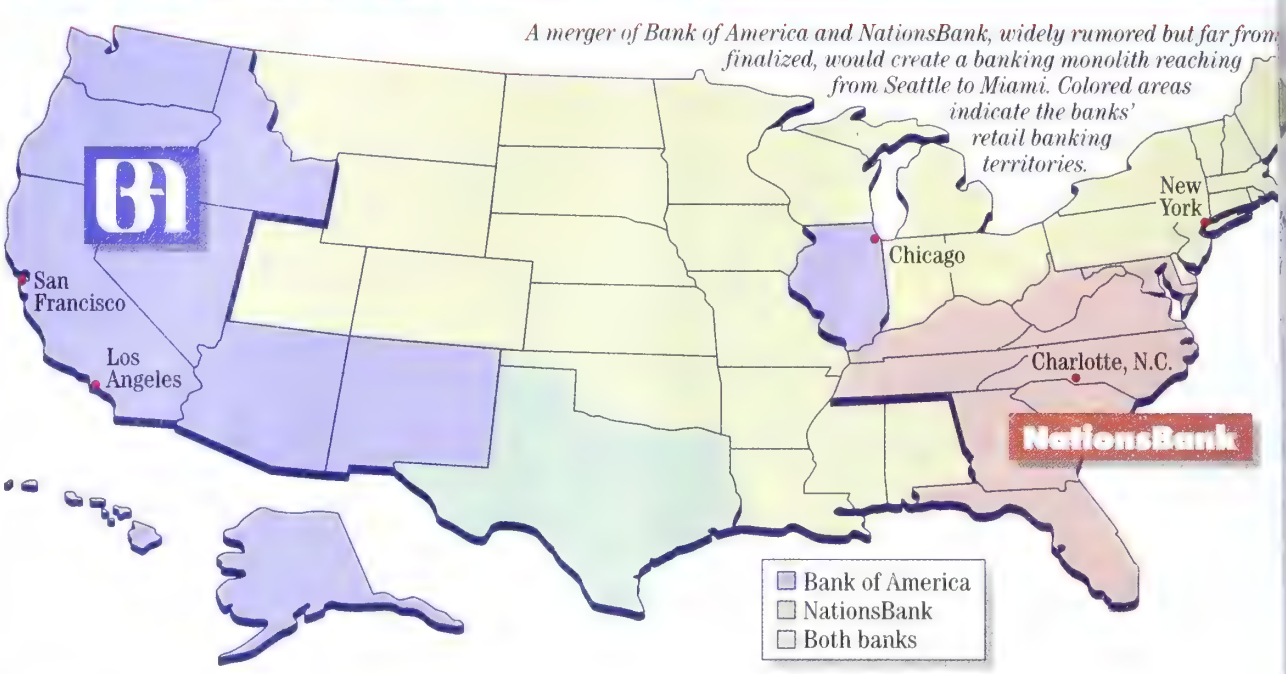
By Mark Maremont in Boston

Bausch's Board

Bausch & Lomb's outside directors

FRANKLIN AGNEW	Business consultant
WILLIAM BALDERSTON III	Retired banker
BRADFORD BOSS	Chairman, A.T. Cross
RUTH McMULLIN	Management Fellow, Yale
JOHN PURCELL	Venture capitalist
LINDA JOHNSON RICE	President, Johnson Publishing
ALVIN TRIVELPIECE	Oak Ridge National Laboratory
WILLIAM WALTRIP	CEO, Technology Solutions
KENNETH WOLFE	CEO, Hershey Foods

DATA: COMPANY REPORTS



A merger of Bank of America and NationsBank, widely rumored but far from finalized, would create a banking monolith reaching from Seattle to Miami. Colored areas indicate the banks' retail banking territories.

DEALS

BANKAMERICA AND NATIONSBANK: NO WHITE SMOKE YET

Still, compelling reasons to merge may prove irresistible

In a merger-mad banking world, there's no hotter prospect than an alliance of BankAmerica Corp. and NationsBank Corp. With $412 billion in assets, the combined bank would be America's largest, dramatically eclipsing the soon-to-be-joined Chase Manhattan Corp.-Chemical Banking Corp.'s $297 billion. Under the lustrous Bank of America name, it would reach 18% of U.S. homes in a golden crescent stretching from the Pacific Northwest through Texas east to Washington, D.C.

But it isn't going to happen just now. Sources close to both banks say news reports in *Barrons* and the *Los Angeles Times* citing highly charged merger negotiations were premature. Outsiders say talks between the two banks were fairly serious last spring. But they were unable to agree on where the merged institution would be headquartered or who would run it. "There are certainly embers there, and there probably was a flame," says one investment banker. But negotiations broke off, another source says, when NationsBank CEO Hugh L. McColl Jr. worried that his bank was being acquired instead of merging.

Much has changed since, however—enough, perhaps, to eventually push BofA and NationsBank to the altar. Wells Fargo & Co.'s hostile offer for First Interstate Bancorp would create a tough new competitor on BofA's home turf. More important, the Chase-Chemical supermerger sets a bigness precedent for NationsBank's McColl and BofA's Rosenberg, both veteran acquirers who have relied on sheer size to build market power in both retail and corporate banking. In fact, a source close to BofA says Rosenberg was arguing as recently as two weeks ago that a NationsBank merger would create marketing prowess, technological efficiencies, and strengthened distribution.

"IN PLAY." It's no accident that merger wires are buzzing in California. Although still bleak, the Golden State's bank market may at last be primed to shine again. The state's bankers have whittled problem loans to 2.76% of assets, from the crisis mark of 7.45% in early 1992. Return on assets has more than quintupled, to a .97% annual rate. The numbers still trail the national average, but the turnaround is clear. "California is in play," says Lloyd Greif of Los Angeles-based investment firm Greif & Co.

It's typical McColl territory—big tential at workout prices. Edward Harshfield, CEO of Los Angeles-ba thrift California Federal Bank, says Coll hunted similar quarry in the Te market in 1988. "He's a little more guine about risk than others," he sa

Run the numbers, and there are sons a BofA-NationsBank deal ma sense. Analysts say the transac would be a virtual merger of equa matching BofA's $230 billion in as with NationsBank's $182 billion. Ke Bruyette & Woods Inc. analyst D Berry figures the two banks could costs by $800 million, 6% of combi expenses, by eliminating redundancie corporate finance, cash manageme credit-card operations, and mortg processing. The combination could u marketing in some of the nation's rich retail markets, creating the first nat al banking brand and enabling it to c pete more effectively for corpor underwriting and international busin

A deal could also fit both McC and Rosenberg's private agendas. senberg, 65, who has said he will tire on Jan. 1, could go out with a ba McColl, 60, could run the nation's larg bank until his retirement and still m it possible for Rosenberg's succes 48-year-old David A. Coulter, ultimat to take the reins. The numbers, strategy, and the management plan make plenty of sense. More than lik these two will be talking again.

By David Greising in Atlanta, w Kelley Holland in New York a Nanette Byrnes in Los Angeles

R. CLEAN, YES R. DYNAMO, NOT YET

Frank Newman the new broom Bankers Trust needs?

many ways, it was an astute move.)uring the past 18 months, Bankers 'rust Co. has been investigated and sured by regulators, accused by cli- ; of misrepresenting the complex de- tives it sold them, and faced with a 're of staff defections. This was a k badly in need of a credibility boost. t has one now in the person of nk N. Newman, named president of ıkers on Oct. 19 after joining the k as senior vice-chairman in charge dministration and nce just a month ›re. He will take :he duties of CEO 'an. 1 and become irman and CEO t April, after ırles S. Sanford retires. Newman ıgs impeccable lentials, having 'ed as chief finan- officer for Bank ımerica and most ently as Deputy asury Secretary he Clinton admin- ation. Add to the ımé a pristine ıtation for integ- and intelligence, Bankers has a l "Mr. Clean" in corner office.

Newman, 53, vows help Bankers, a ;time leader in de- ıtives and risk ıagement, realize potential. "This company is extraordi- ly good at financial risk management in ry direction, and that's going to be a inually growing need, especially inter- ionally," he says. "Its approach . . . is ly on the leading edge of the direction ink financial services is going."

ERVED. Skeptics question whether wman is really the best person to Bankers for the long haul. He has nt most of his career as a staff exec- 're and financial expert, not a banker h line functions. Indeed, Hamish xwell, former chairman of Philip Mor- Cos. and a director of Bankers, says wman, who was recruited by San- l, was originally hired with no prom- of anything beyond his original role.

And although he inspires remarkable loyalty among subordinates, former colleagues—even some of the many who admire him—describe Newman as reserved and guarded. Some analysts question whether he has the dynamism to galvanize the troops at Bankers. "I'm not 100% convinced he has the skill set to run a wholesale bank," one says.

On the other hand, Newman has successfully confronted broad strategic issues. At BofA, he was known chiefly as an adroit manager of the bank's capital and as part of the team that turned the bank around. Newman says that as CFO "I was actively involved in the setting of direction for a range of businesses—very good training for a CEO."

Newman is known as a consensus builder who solicits opinions from everyone around him on decisions. "I do like to get multiple views," Newman says. "But I'm not reluctant to make decisions and hold people accountable." He also listens to criticism. A Treasury aide recalls a heated Capitol Hill meeting on Washington's fiscal crisis, when Democratic District of Columbia delegate Eleanor Holmes Norton erupted at Newman: "You are tight-assed and unhelpful!" Newman thought for a moment and replied: "Tight-assed I accept—unhelpful, I don't."

NO SALE. Newman will head a bank whose derivatives business has lost $170 million so far in 1995. Procter & Gamble Co. is alleging that the bank violated anti-racketeering laws. And many clients are still shying away from doing business with the bank. Says one Asian derivatives expert: "If you're a corporate treasurer and say your bank is Bankers Trust, you'll be laughed out of the room."

Such problems may have greased the skids for Sanford's retirement. "I think regulators had a big hand in Sanford's departure," announced in May, says Thomas H. Hanley, an analyst at CS First Boston. Bankers says regulators were not involved. But what helped drive Newman's elevation, sources say, was the disclosure of taped conversations among Bankers employees regarding misrepresentations to clients. Those conversations, cited in P&G's litigation with Bankers, were made public on Oct. 3, less than three weeks before Newman was named president. Maxwell says naming Newman took place when "we felt we knew enough" and knew Newman better.

Some say Newman's mandate may be to clean up Bankers, settle with P&G, and sell the bank. Newman will not comment on the P&G case and says he has no plan to sell Bankers. If so, he's facing a major rebuilding. And integrity alone won't win the battle.

By Kelley Holland in New York, with bureau reports

FRANK N. NEWMAN

President, CEO-elect, Bankers Trust

PREVIOUS JOBS
–Deputy Treasury Secretary under President Clinton
–Chief financial officer, Bank of America
–Chief financial officer, Wells Fargo

EDUCATION
Harvard University, BA in economics, 1963

ACCOMPLISHMENTS
Helped enact bills allowing interstate banking, promoting community development, and reforming bankruptcy laws. During the late 1980s, helped turn around Bank of America

Some say his mandate may be to straighten up Bankers, settle litigation with Procter & Gamble, and sell the bank

MADDENING CROWD: *Shareholders a ADM's annual meeting in October*

EXECUTIVE SUITE

A GRAIN OF ACTIVISM AT ARCHER DANIELS MIDLAND

Two directors may shake up the agribusiness giant's board

It was corporate governance, Dwayne Andreas-style. At the Oct. 19 annual meeting of Archer Daniels Midland Co., the agribusiness giant under investigation for price-fixing, Chairman Andreas shouted down shareholders and ordered the audience microphones turned off. To a pension official who yelled out: "This is telling us a lot about how this company is run," Andreas shot back: "This meeting, sir, runs according to my rules."

Running contrary to this guy could be like putting your head in a lion's mouth. But two ADM directors—members of a board widely derided by shareholders as milquetoast—are about to risk doing just that. Ray A. Goldberg and O. Glenn Webb, co-chairmen of ADM's new corporate governance committee, will work with outside consultants and other directors to examine the board's size, director qualifications, ethics, compensation, and other issues. Their goal, sources close to directors say, is to restructure the board. "All things have to be addressed—and they will be," Goldberg promises.

"FULL COOPERATION." Andreas, in a rare interview, promises to give the committee free rein. "They can do anything they want," he told BUSINESS WEEK. And Webb says he expects Andreas to "give us his full cooperation." But the 77-year-old Andreas also defends ADM's 17-member board. Is it too big? "Seventeen is a good size," he declares. Part of its growth has come as the company has kept on "very valuable" longtime directors, he says.

Andreas also casts doubt on the allegations raising investor ire—the charge by ex-ADM executive and whistle-blower Mark E. Whitacre that ADM is involved in global price-fixing for some of its products. Andreas claims it would be nearly impossible to fix the price of commodity items such as lysine, an ingredient in animal feed. If prices were artificially inflated, customers could simply switch to soy meal, Andreas says. Whitacre is telling "fairy tales" to cover up his alleged theft of $9 million from ADM, Andreas says. Whitacre is sticking to his charges.

CAN GOLDBERG (ABOVE) AND WEBB BRING CHANGE?

Some investors think big changes are needed to restore confidence in ADM. The board needs a majority of "truly independent directors," says Richard H. Koppes, deputy executive officer at the California Public Employees' Retirement System (CalPERS). "They have to get some people off." Investors gripe that eight ADM board members are over 70, four are members of the Andreas family, and two are related by marriage.

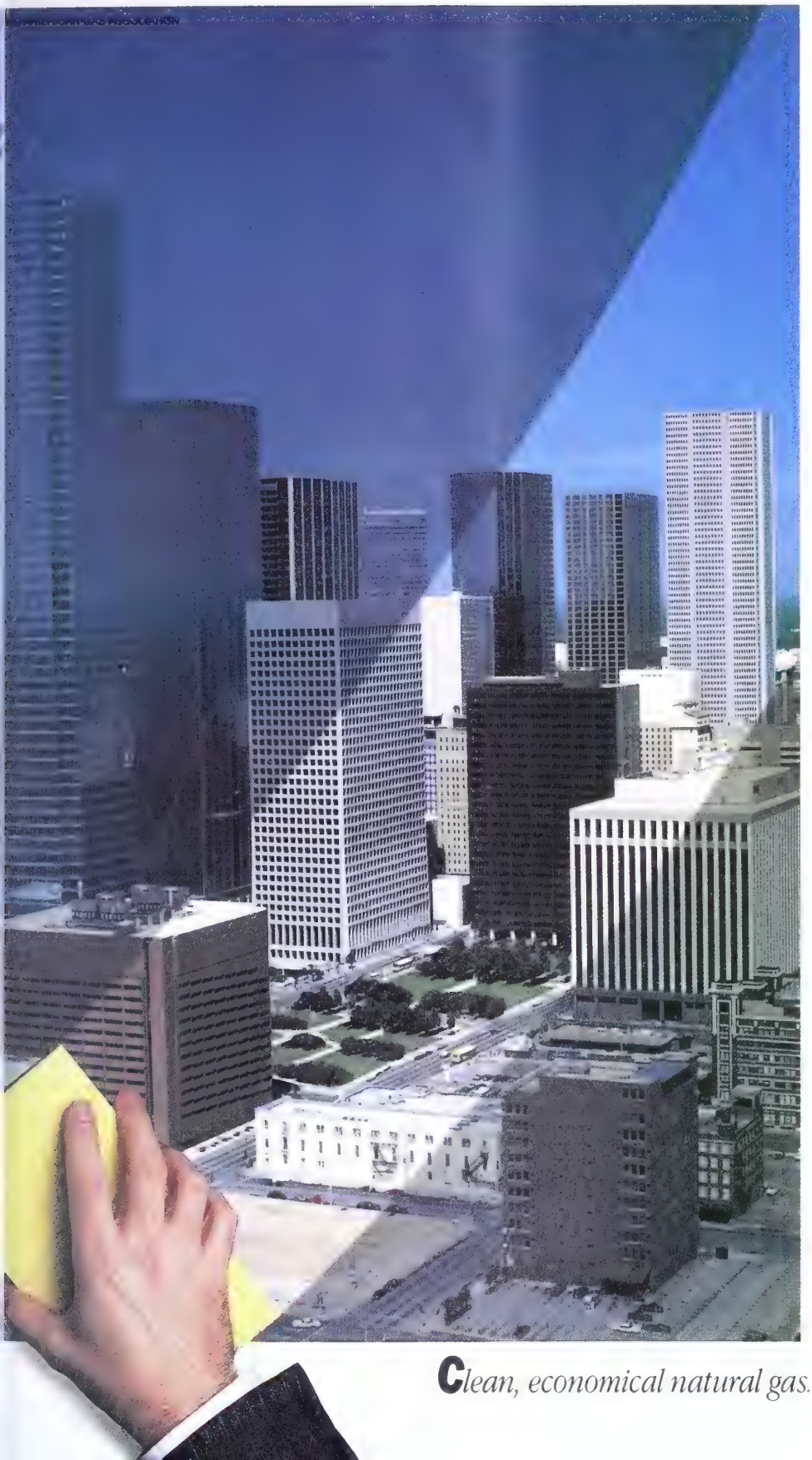
Many, however, doubt that Goldberg and Webb will be able to achieve significant change at ADM. Both have long had close ties to the company. The 59-year-old Webb heads Growmark Inc., a $1.1 billion farm cooperative partly owned by ADM since 1985. Goldberg, 69, a Harvard professor, is a longtime Andreas friend who has presented case studies on ADM. And ADM for years h ignored critics of its insider-dominat board: It earned an "F" grade fr CalPERS earlier this year after faili even to respond to its governan queries.

But some outsiders think the t may surprise a few peop As a director of CoBank A in Denver, Webb is helpi to downsize a board that w bloated by a recent merg And Goldberg has led t boards of Pioneer Hi-Br International Inc. and Vigo Corp. in compensation, ethi and environmental issue "He's not a screaming, shou ing director, but he's an a tivist," says Robert Fowler Jr., chief executive Vigoro. Now that ADM mired in scandal, both Gol berg and Webb see their and in Goldberg's case, Ha vard's—reputations as bei on the line. "This is very se sitive to me," Goldberg say "I don't want to be a lous role model to my students. don't want to do anythi that would ever diminish t ethical system I and this university li by." Goldberg promises to resign fro the board if "it feels like I'm tilting windmills."

The governance committee's first r port is due within three months. F his part, Goldberg acknowledges th any medicine might be hard for ADM t swallow: "For companies like this th grew up as family firms, the transiti is difficult when you need to satis shareholders." For Dwayne Andrea the alternative may be even harsh criticism from key investors.

By Greg Burns in Decatur, Ill. an Richard A. Melcher in Chicago

Don't you wish we could just do this to CFCs.



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No doubt about it, natural gas is a high-tech, low-cost way to keep cool without CFCs.

It's a cool way to help save our ozone layer, too.

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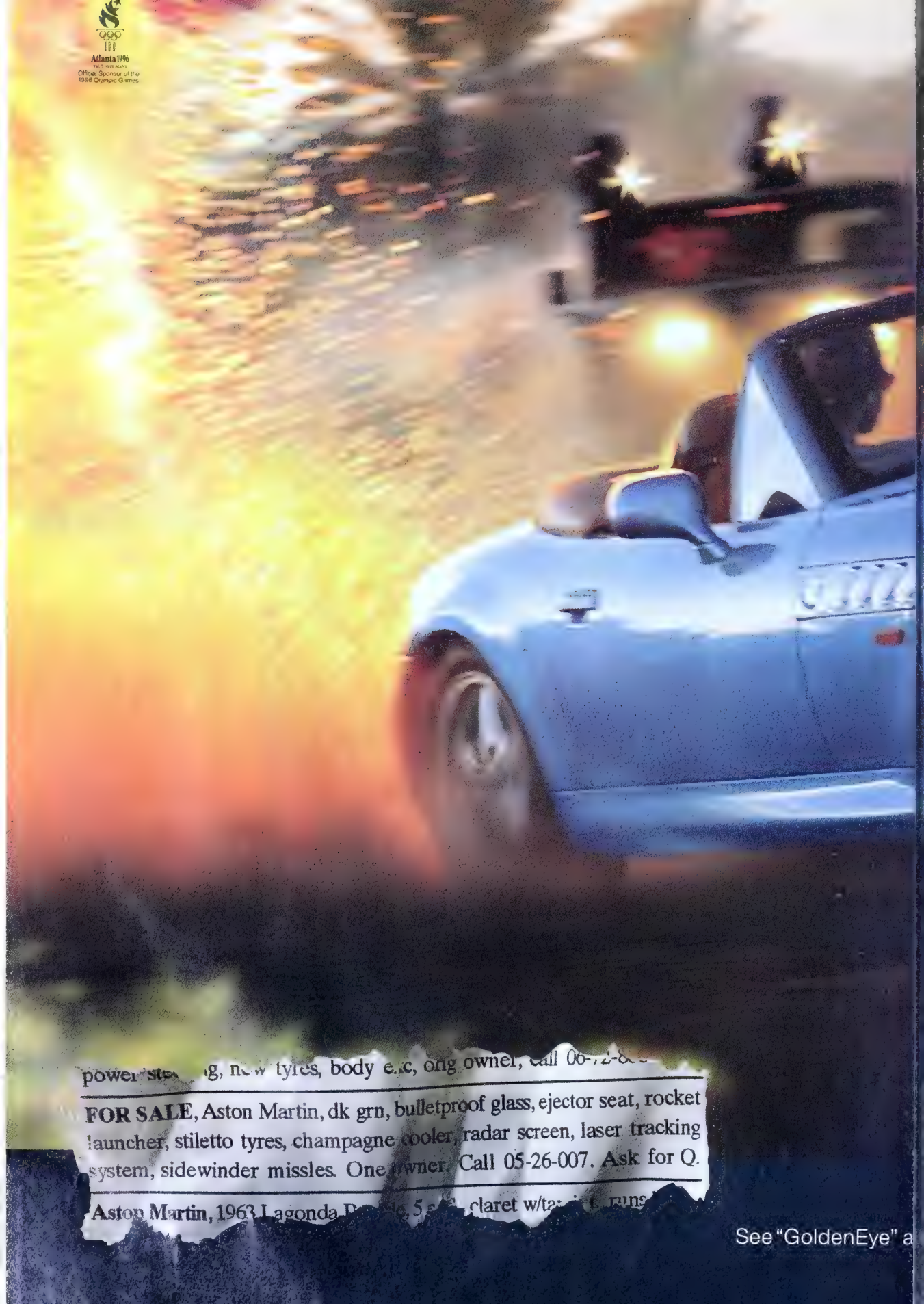
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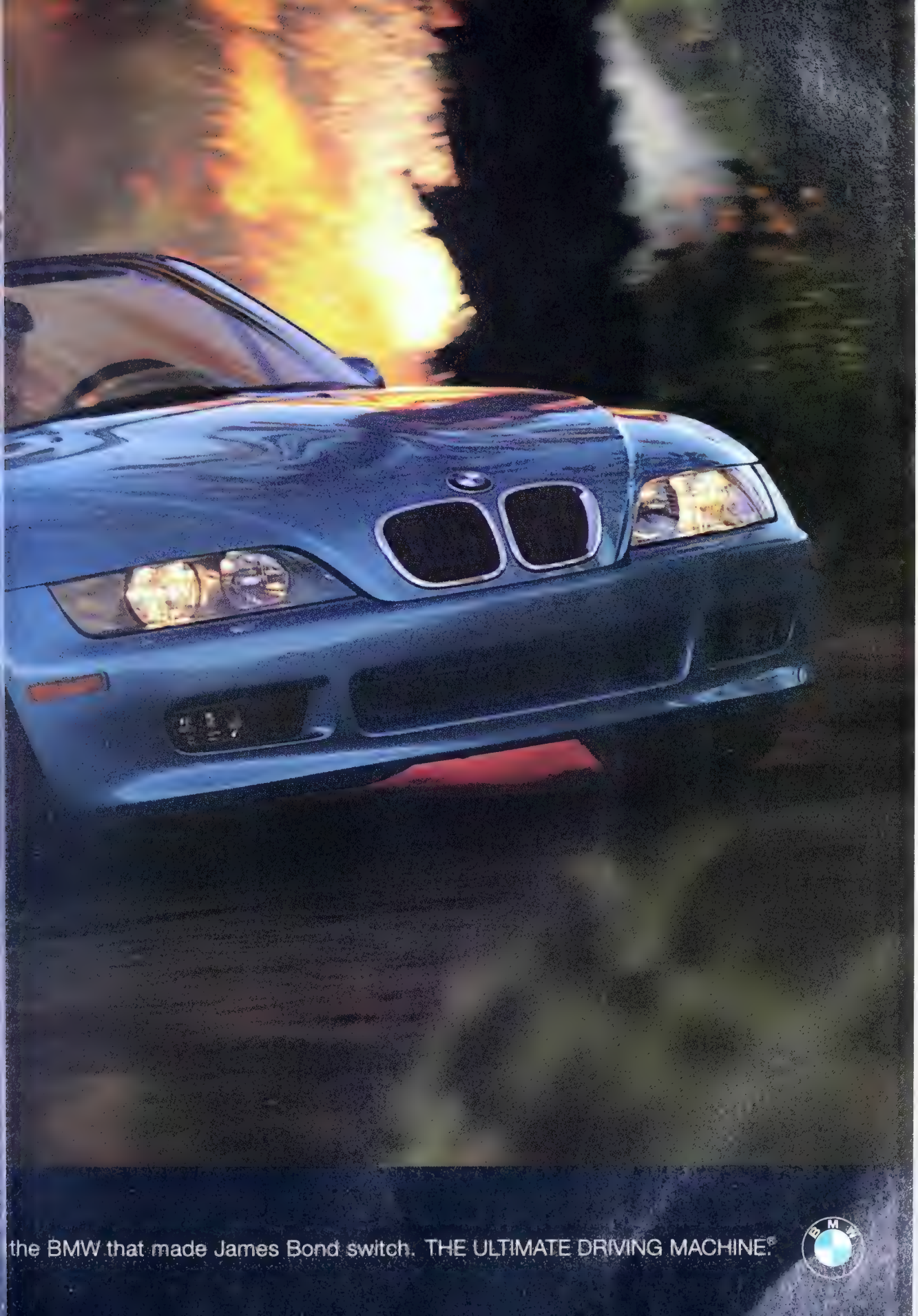
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BASKETBALL

HOOP DREAMS IN A HOCKEY TOWN

Why success will be such a stretch for the Toronto Raptors

Poor John. Not only has John Bitove Jr., 34, wagered a sizable chunk of his family's food and beverage fortune on a pricey NBA expansion team, but also he has rolled his dice in Toronto, where history is hardly on his side. The first National Basketball Assn. game ever, in 1946, featured the New York Knickerbockers against the Toronto Huskies. The Huskies lost 68-66. One year later, the team folded its tent.

RAPTORS RAP: *Will Isiah Thomas pull them in? John Bitove thinks so*

John Jr. and his four siblings equally split ownership of Bitove Corp.'s holdings, which include Toronto's airport and Skydome concessions and all seven of Canada's Hard Rock Cafes. So they aren't hurting for cash. Still, launching the Toronto Raptors will cost about $300 million, with the franchise fee alone running $125 million—more than three times the setup cost for the most recent expansion teams, the Orlando Magic and Minnesota Timberwolves in 1989. Even with their "bargain" $37.5 million fee, the Timberwolves have been a disaster on the court and on the balance sheet, a cautionary tale about pushing hoops in a hockey town.

And Toronto isn't just a hockey and baseball town—it's a town used to winning. The Maple Leafs have bagged 13 Stanley Cups and the Blue Jays took the World Series in 1992 and 1993. If precedent is any guide, the Raptors will likely lose three-quarters of their games over the first few seasons.

So how do you sell (probably losing) basketball to Toronto? For starters, Bitove has tapped an NBA legend, Isiah Thomas, also 34, as general manager. Already, he is the Raptor's primary marketing tool: An appearance on *The Late Show with David Letterman* was one of his first tasks. Despite Thomas, luring fans won't be a layup. The Raptors, like the other new team, the Vancouver Grizzlies, filled its roster from the expansion draft. "You get all the other teams' waste, which you try to turn into gold," says Thomas. "Do we have chemistry? Probably not. Model citizens? Probably not."

WELL-CONNECTED. If Bitove does have an ace in the hole, it's business. "Toronto is a huge corporate market," says Rick Welts, the NBA's executive vice-president. Many top U.S. corporations have their Canadian offices in Toronto, "with wholly separate ad budgets and profit-and-loss statements," Bitove says. "We're Canada's entertainment, media, financial, and automotive capital—Detroit, Los Angeles, and New York all in one." Of 104 luxury boxes that rent for up to $130,000 a year, 74 already have been leased for 10 or 15 years a pop. Also, the Rap have lined up deals with Sears, Bell C ada, Shoppers Drug Mart, Air Can and NBA stalwarts such as Nike. Ford Motor Co. of Canada signed a year, $34 million deal with the Rapt

Bitove's do-it-yourself business losophy should help, too. "The day just signing your players, selling ev thing for a rights fee, and hoping sell out is over in sports," says the feine-charged Bitove, who caught ketball fever as an undergrad at Indi University. "To not take the team leverage it into so many more busir opportunities is a mistake."

So instead of a regular TV deal, Raptors have leased 135 hours of time. They will also bear the cost studio production, sell the ads— pocket the profit. Instead of paying r the Raptors intend build their own $ million stadium, Air Canada Cen with entirely priv financing, includ 17,000 ticket license one-time fees of up $8,000 that give holders the right buy (and sell) one s son ticket every y As his own landlo Bitove hopes to m imize his family's c cession-business ex rience, as well as b summer downtime.

> The team has leased its own airtime and intends to build its own stadium

Bitove, a law and the family's ch dealmaker, strategi ly selected his pa ners. The Bank of Nova Scotia ho 10% equity; it helps with currency he ing. "That's one of the problems bein Canadian franchise—we took a hit $6 million to $10 million on franch fees alone when our dollar fell," Bit says. Another shareholder is a forn Ontario premier, David Peterson. Po ical problems have already cropped For example, the Province of Onta balked when the NBA insisted that remove basketball from its lottery. T government relented after the Rapt endowed a $4 million charitable fo dation and the NBA kicked in $1 mill more for medical research.

Bitove is even canny enough to play Toronto's diversity, which includes a s stantial Italian and Croatian populati On the team's roster is an import fr the Italian league and a seven-foot Cr

Maybe not-so-poor John after

By Michael Goldstein in Toro

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EDITED BY KEITH H. HAMMONDS

ANHEUSER STICKS WITH SUDS

THE CLYDESDALES WILL BE pulling a lighter load. In a restructuring that will result in write-offs of some $300 million, Anheuser-Busch said on Oct. 25 that it will shed most of its nonbeer operations. Off go the money-losing St. Louis Cardinals and Eagle Snacks, plus Busch Memorial Stadium. Plans to spin off its Campbell Taggert baking unit were announced earlier. Anheuser will stick with the brutally competitive beer business, where it has enjoyed double-digit profit growth overseas but is eking out modest earnings increases at home. "We are focusing on what we know best," explains Anheuser Chairman August Busch III.

CLOSING BELL

A CLEAN SWEEP

A safe stock, yes. But Procter & Gamble is rarely flashy. Since September, though, shares have jumped 20%. One reason: solid profits. On Oct. 25, P&G said net income was up 13%, to $896 million. On Nov. 1, Chairman John Pepper will meet with analysts. Some expect word on how P&G will use its huge cash flow. Investors looking for a huge stock buyback probably will be let down. But "how they redeploy that is going to be critical," says Jay Freedman at P&G holder Lincoln Capital Management.

SUPERAUDITS BITE THE DUST

THE INTERNAL REVENUE SERvice's fishing expedition has been called off. The tax agency announced Oct. 23 that the Taxpayer Compliance Measurement Program—or "audits from hell"—would be postponed indefinitely. Under TCMP, the IRS planned to subject 153,000 individual and business taxpayers to intensive examinations, requiring them to verify virtually every item on their returns. The superaudits were designed to pinpoint likely areas of cheating so the IRS could target its regular probes more effectively. But the prospect of armies of auditors didn't sit well with the GOP Congress, fueling a drive to cut $400 million from the IRS's enforcement budget.

IT'S SPLITSVILLE AT MELVILLE

AN INVESTOR FAVORITE IT'S NOT. Melville, its shares down 35% in three years, has become a regular target of angry shareholder groups. On Oct. 24, the retailing giant finally opted to appease Wall Street by taking itself apart at the seams. Melville, which a week earlier said it would sell its Marshalls chain to rival TJX, will split into three separate companies. One, headed by Melville Chief Executive Stanley Goldstein, will consist of its CVS and Linens 'n Things chains; two other spin-offs, set to be complete by the end of 1996, will center around its Thom McAnn shoe business and Kay-Bee toy shops. Investors were none too impressed, sending Melville shares down 7%.

SALOMON'S LIPS ARE RESEALED

WHEN WARREN BUFFETT swept into troubled Salomon Brothers in 1991, he promised to be open with shareholders. Soon the firm began breaking out the results of its two very different operations: customer trading and the more volatile proprietary trading for the house account. Well, so much for openness. When Buffett announced on Oct. 19 that he was cashing out part of his stake in Salomon, the investment bank said it would no longer be breaking out results by unit. The obvious explanation: The firm wants to obscure its reliance on proprietary trading, which accounted for 92% of Salomon Brothers' pretax third-quarter income.

HEADLINER: JAMES McNERNEY

A RISING GE STAR GAINS WATTAGE

You're Jack Welch, and you're not leaving the corner office at General Electric until 2000, damn it. On the other hand, there was that nasty bypass surgery last spring, and succession speculation is rampant.

What to do? Nothing, certainly, to dampen the rumors. Instead, on Oct. 23, GE announced that James McNerney Jr., a rising star dispatched in 1992 to Hong Kong to jump- start GE's presence in Asia, would return to head the $3 billion lighting unit. He'll replace John Opie, 57, who will become vice-chairman and a member of the three-person executive office.

It's a high-profile assignment for McNerney, placing him squarely in the top ranks of younger execs favored to succeed Welch, 59. Among his chief rivals: Robert Nardelli, head of GE's Power Systems unit, and Plastics chief Gary Rogers. McNerney, 46, is a Harvard MBA who has run three smaller GE businesses and done time as a senior executive at GE Capital Services. At Lighting, he will oversee a revamped business with an overhauled product line that has seen tremendous growth overseas.

By Tim Smart

3DO IS BACK IN THE GAME

IF LIFE WERE A VIDEO GAME, 3DO would be the plucky hero, constantly averting destruction. On Oct. 25, the struggling software company won another lease on life, getting a $100 million cash infusion from Japan's Matsushita Electric Industrial. Matsushita will get an exclusive license to use 3DO's next-generation game technology, called M2, in consumer game players, interactive TV, and set-top boxes. 3DO, which had just $20 million in cash as of June 3, gains a heap of credibility. Says Chairman Trip Hawkins: "This shows the whole world we make some great technology."

ET CETERA . . .

- RJR Nabisco sold 6% fewer cigarettes in the third quarter than a year ago.
- Donaldson Lufkin Jenrette went public. So did Gucci, whose shares gained 22%.
- Quaker Oats President Philip Marineau resigned. Was Snapple to blame?
- Netscape scored an unexpected profit. Its stock soared 26% in three days.

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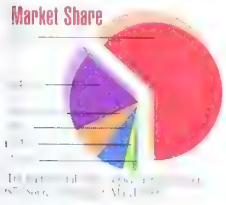

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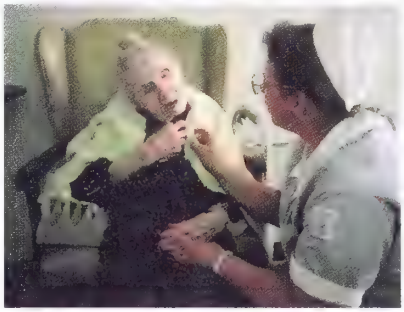
TED BY OWEN ULLMANN

OW MEDICAID REFORM OULD BURN THE MIDDLE CLASS

apitol Hill Republicans are about to do something experts once deemed impossible: end a middle-class entitlement. No, not Social Security or college loans, but a big chunk Iedicaid, the health-care program originally designed for poor. That's quite a coup. But will the GOP still be cele- ing in a few years?

Iealth-care experts warn that one consequence of the 's $182 billion Medicaid cut over seven years will be wing pressure on states to end a widely used middle- s ploy: juggling family finances to get Uncle Sam to pick the tab for parents in nursing homes. Medicaid costs e ballooned as more affluent families ways to tap the system. Today, 52% of 5. nursing-home costs are covered by licaid at an average of $40,000 a year patient. Many are once-prosperous sen- who become penniless on paper by illy transferring their assets to family nbers or to trusts. Then, when the old- 's need extended nursing-home care, licaid often foots the bill—as long as transfers were done two years in ad- ce, depending on state regulations.



ELDER CARE: *Minefield for the GOP*

Y CHOICE. But by slashing projected nding, Washington will force states to ose between allocating scarce funds to these middle-class erly and their families, or to a growing population of poor dren, pregnant women, and truly impoverished seniors. If ; sparks a middle-class revolt, the brunt could be borne by new crop of Republican governors. "There's not a single son in the middle class who can pay for a parent in a nurs- home," grouses Atlanta's Democratic Mayor Bill Campbell. is is absolutely going to backfire."

ndeed, the last time Congress tried to tackle the problem inancing long-term care, plans to create a program cover- the cost of catastrophic illness were scuttled by affluent iors who objected to higher premiums. This time, though, the backlash will come from their children as states crack down on asset transfers. A 1993 General Accounting Office study found that half of Medicaid recipients in nursing homes had hidden or transferred assets, with transfers averaging $46,000. And Oregon, in a single year, recovered $7 million from the estates of impoverished Medicaid nursing home patients who died while owning a home.

So far, Oregon is the exception. Most states are reluctant to aggressively hunt hidden assets from nursing home residents or to try to recover costs by attaching homes of dead Medicaid patients. But federal regulations allow states to rule nursing home patients ineligible for Medicaid for up to three years following bogus asset shifts. So with states sure to get less cash from Washington in the future, attitudes are changing. "We'll be looking under every rock to find that hidden money," promises one Midwestern state official.

COMING CRUNCH. States also are likely to push more innovative programs to encourage people to buy private long-term-care insurance, which can cost $1,800 to $4,000 annually for a healthy 70-year-old. Some states allow elders who have purchased a policy and then exhausted benefits to keep their assets and still receive Medicaid payments for future nursing care. The GOP would also make such insurance payments tax-free and may allow the tax-exempt use of 401(k) plan funds to buy insurance.

But the most creative alternatives may be overwhelmed by the coming budget crunch. Already, Hill Republicans have retreated from plans that could have forced spouses of nursing-home residents to spend more of their savings before qualifying for Medicaid. That's a preview of what GOP governors can expect when the great Medicaid money hunt begins in earnest—and the middle class starts to howl.

By Paul Magnusson

CAPITAL WRAPUP

AMES LAWMAKERS PLAY

Politicians are bipartisan when it mes to inventing budget gimmicks. 1993, President Clinton proposed a eficit Reduction Trust Fund to con- nce the public that his tax increases ould not be used for new spending. ow, Capitol Hill Republicans prom- e to put Medicare savings in a trust nd, in order to fend off charges that ey're trimming seniors' benefits to ance tax cuts for the rich. In truth, ese separate funds are meaningless: ll tax collections go into a single pot without being earmarked for special purposes. The trust funds contain only Treasury IOUs.

NEWT GINGRICH, C'MON DOWN!

▶ Voters are so cynical that only 13% believe lawmakers will actually balance the budget by 2002, according to a survey released Oct. 23 by the anti-deficit Coalition for Change, an alliance led by the Business Roundtable. And 39% of respondents say TV's Bob Barker, host of *The Price Is Right*, knows the value of a dollar better than their member of Congress.

BIG TALK, LITTLE MONEY

▶ Are Hill Republicans just paying lip service to export controls? Some of the GOP's staunchest advocates of curbing high-tech sales abroad are backing legislation that would force major cuts in the Commerce Dept.'s export-policing arm. A House bill slashing Commerce's trade programs by 25% would force the Bureau of Export Administration to halve its 1,600 investigations of illicit shipments of goods, such as computers and telecommunications gear.

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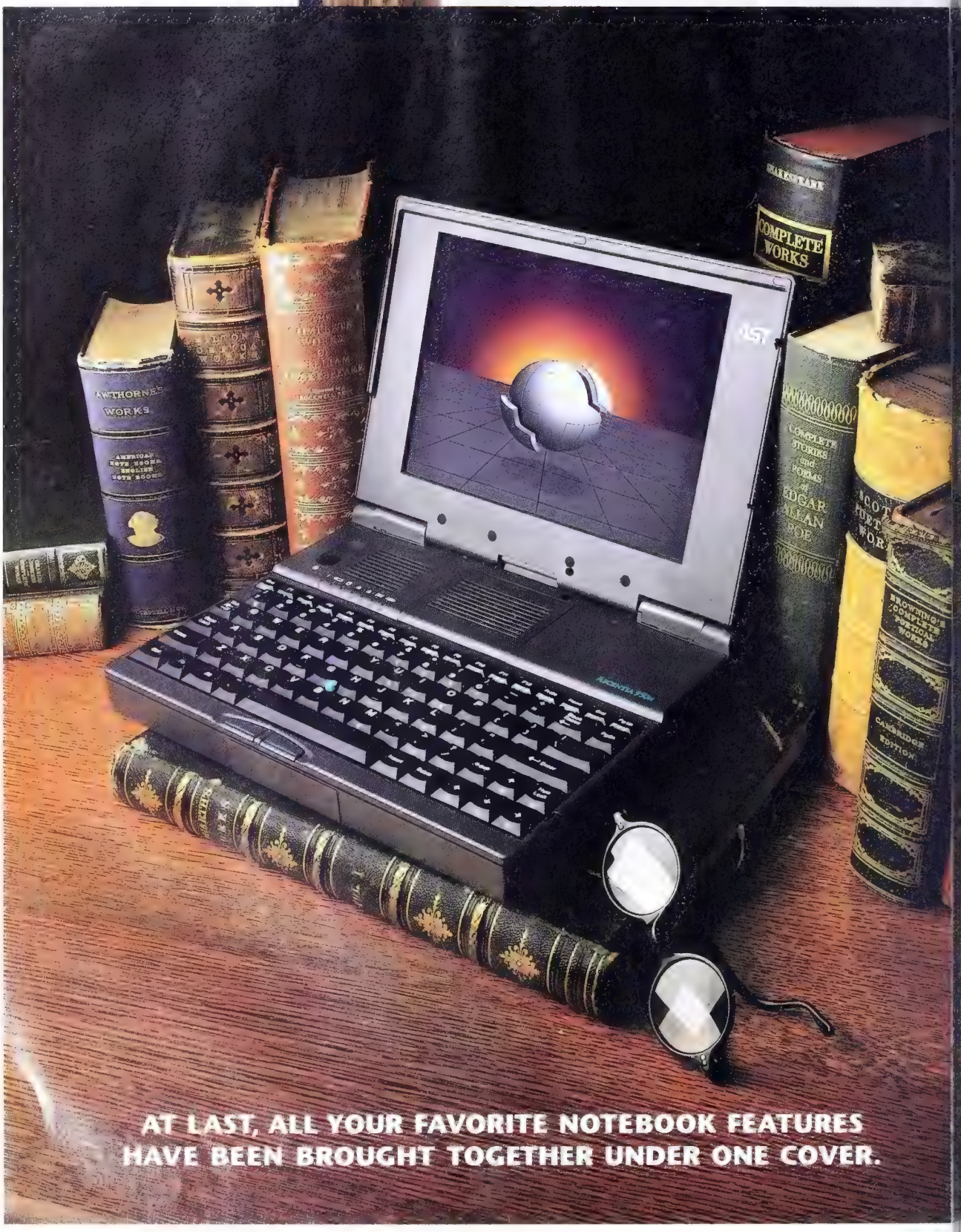

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CHINA

HOW GM GOT THE INSIDE TRACK IN CHINA

A relentless push and clever strategy seem to have won the auto maker a huge joint venture

For Chinese officials, a visit to Brazil last year was like a trip into the future. A high-level delegation from Shanghai Automotive Industry Corp. got a grand tour of General Motors Corp.'s Brazilian operations. Brazil has been transformed into a key outpost in GM's global network, linked by computer to the company's worldwide automotive and technology businesses so that cars and factories can be designed in concert with GM technical centers around the world. "We told them, 'This is what Shanghai could become,'" recalls GM Chief Executive John F. Smith Jr.

That field trip may have been the turning point for GM in its pitched battle with Ford Motor Co. to win a $1 billion Shanghai luxury car and minivan project. Smith won't confirm the win, but Wall Street sources say Chinese officials are telling GM and Ford that GM has received the nod for the project, which aims to produce 300,000 midsize cars and minivans annually. A 40-person Chinese automotive delegation arrived in Detroit in late October and is expected to announce its selection the week of Oct. 30. The joint venture would vault GM into first place among the U.S. auto makers skirmishing to stake claims in China.

GM is cautious about declaring victory, and Ford hasn't conceded defeat. Both know deals can fall apart in China. Chrysler Corp., which builds about 60,000 Jeeps annually in Beijing, once thought it would get a coveted minivan deal in China, but it fizzled at the last minute. In July, Mercedes-Benz got it instead. "Nothing is certain in China," says one Detroit executive. Chinese officials deny they have made a decision, and politics may have played a role—word emerged just as President Clinton was meeting Chinese President Jiang Zemin in New York.

But a GM win would cap a two-year overhaul of its Chinese strategy. The company's vast parts-making operation, Delphi Automotive Systems, made its first cautious explorations into the Chinese market in 1993. A year earlier, GM set up a joint venture to produce pickup trucks, but felt that auto-assembly projects were too uncertain.

BOLD GOAL However, since Smith visited China in mid-1994, the auto maker has accelerated its approach to a market that could eclipse the U.S. by early next century. Urged on by his activist board, Smith set a bold goal to make GM the No. 1 or No. 2 foreign auto maker in China. "To maintain our stature in the worldwide auto industry, our top management and the board realized a major presence in China was a necessity," says Tom McDaniel, former vice-president of GM's Asian and Pacific operations.

STAID: *The Buick Regal appeals to Chinese tastes*

To run its China operations, Smith dispatched Rudolph A. Schlais Jr., formerly head of Delphi's Packard Electric Div. Schlais earned his stripes by negotiating three Chinese joint ventures for Packard. His marching orders from Smith: Win the Shanghai project. "My job is to change our role in China into a major presence," Schlais said earlier this year.

GM's strategy was to bill itself as a one-stop shopping center for technology. Beyond its car design and building ca bilities, the company offered the e tronics knowhow of Hughes Electro Corp. and the computer technology its Electronic Data Systems unit. Si lar approaches had worked for oth including AT&T, Motorola, and most e cently Daimler Benz, with its $1 bil southern China minivan project. "G probably the only company in the au motive world with the resources work with China on an across-the-bo basis," says Schlais.

The approach appealed to the technol-
y-hungry Chinese, who insist that for-
n auto makers share some of their
nicle-development secrets to win proj-
s. Chrysler lost the southern China
oject when it balked at licensing pro-
ction of its minivan components.
'e're very protective of our technolo-
" says one Chrysler official.
But GM figures it has more to gain
n to lose by sharing. To that end, it
s established two GM-China Technology
stitutes to teach Chinese college grad-
tes to design car parts, engines, and
nsmissions. At least three more are on
e way, at a total cost of $40 million.
side from Brazil, GM has brought Chi-
se engineers to Detroit to teach them
mputer-aided design and other aspects
vehicle development. "The Chinese
e going to get the technology some-
here," says David Cole, a University of
ichigan auto consultant. "It might as
ell be you rather than your competitor."
GM officials hope that someday China
ll become a linchpin in Asia, with the
gion as a global source of auto parts,
w-cost vehicles, and even engineering
expertise, linked to design centers in the U. S., Brazil, Europe, and Japan. "You'll be seeing all these pieces coming to the forefront," Schlais promises.

GM also appears to have taken the Shanghai prize for pragmatic reasons. It offered Shanghai Automotive the staid Buick Regal and its internationally designed 1997 minivan. Ford, meanwhile, offered the conservative Chinese a version of its jazzy new Taurus and its big Windstar minivan. The Chinese reckoned those models were not as well suited to their needs.

CRUSHING BLOW. For Ford, the only Detroit auto maker without a high-profile vehicle-producing venture in China, the loss would be a crushing blow. Ford made a big push into China this year by establishing a $40 million joint venture with Jiangling Motors, which followed a $200 million investment in four parts plants. The parts operations with Shanghai Automotive gave Ford hope that it could overtake GM in the race for the big joint venture. Ford says losing the Shanghai connection won't put an end to its prospects in the market of 1.2 billion. "There will be many more deals in the future," says Ford Chairman Alex J. Trotman. "This is one step in a very long, unfolding journey in China."

Not all is going well for GM in China. Just as its joint venture factory in northeastern China was about to crank out pickup trucks last spring, GM's partner, Jinbei Automotive Co., was acquired by First Auto Works of Changchun, and the new owner wanted to renegotiate. That put everything on hold. Schlais now optimistically predicts that the Jinbei deal is at "a turning point."

For now, GM feels that prospects are much better with Shanghai Automotive. By impressing the Chinese with its global operations—and anteing up its proprietary technology—GM has the chance to become an influential new homesteader in China's automotive frontier.

By Keith Naughton in Detroit and Pete Engardio in Hong Kong, with Katie Kerwin in Tokyo and Dexter Roberts in Beijing

GIANT MARKET: *Smith focused on China—and swung the Shanghai deal*

GM'S CHINA PRESENCE

- Front-runner in $1 billion venture with Shanghai Automotive to assemble midsize cars and minivans
- Renegotiating a $30 million joint venture with First Auto Works to build pickup trucks
- A dozen ventures by its Delphi Automotive Systems unit to make car parts
- Investing $40 million in five technology institutes to teach design of car parts, engines, and transmissions

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GM's gambit was to bill itself as a one-stop shopping center for design, electronics, and computer technology

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EUROPE

THE NEEDLE IS EDGING TOWARD 'EMPTY'

Recession and currency turmoil are stalking Europe again

You would think Luc Williame would be beaming. After all, the chief executive of Belgian glassmaker Glaverbel saw profits jump 60% as his sales to the construction and auto industries increased 8% in the first half of the year. But that was then. Since August, sales and orders have been declining. Says Williame: "We've lost the momentum from recovery that began at the end of last year. We feel a general pessimism from all our customers."

That pessimism is spreading across Europe, and it will hurt not only European corporations looking for higher profits but also politicians desperate for more tax revenue and unemployed workers longing for jobs. Unless governments can find a way to lift the mood of consumers and investors, Europe's joyless recovery could begin to slide toward a dangerous recession.

There are plenty of factors behind Europe's growing malaise. Most important is the currency turmoil. Once just a symptom of Europe's structural problems, it is now the cause of them. Soft-currency countries such as Sweden face weakening demand, while hard-currency countries such as Germany are suffering sharp declines in export competitiveness. Meanwhile, investors dubious countries with weaker currencies keep up with German-style mone discipline have pushed real inte rates up as much as two percent points higher than in the U.S. T rates are stifling domestic consump and business activity.

It's a vicious cycle that's kil growth. A weak auto market resulte a $320 million third-quarter loss Ford Motor Co.—far worse than pected—in its European operati Lower-than-expected earnings spar sharp sell-offs in market highfliers as Finnish mobile-phone maker N and German software star SAP. On 24, Daimler Benz Aerospace, which cut 13,500 jobs since 1993, annou plans to cut 5,000 more.

YAWNING GAPS. The economic squeez a disaster for Europe's politicians. L er profits and falling employment producing yawning gaps between taxes governments are taking in heavy state spending. In late Octo Bonn boosted its estimates of reve shortfalls for this year and the next 40%, to $39 billion. France's $8 bil revenue shortfall this year will only en next year as growth slows.

Such shortfalls will increase the p sure to cut budgets further. Yet push through cuts is often an unpalata choice. Recently announced auste programs are prompting calls for pu sector strikes in Italy and France coming weeks. A nationwide strike ready hit France on Oct. 10. Slump revenues in Germany, France, and B ain will likely force leaders to br promises of tax cuts. Instead, gove ments are hustling through tax incre es. "Basically, consumers and invest

EUROPE'S SLOWDOWN: THE POLITICAL FALLOUT

Governments that hoped economic growth would solve their budget problems now face a perilous pinch

BRITAIN Slowing growth should worsen the budget deficit by a third. Yet if the Tories forgo promised tax cuts, they could alienate voters in the national elections.

FRANCE Approval ratings for the Chirac government are below 30%, as high interest rates support the franc but smother consumer spending. A fierce budget battle is driving investors away.

GERMANY Faltering recovery means tax revenues will be $39 billion less than estimated through 1996. Tax cuts look unlikely.

ITALY Exports are still strong, but national debt exceeds 100% of GDP, and political gridlock will block serious budget reductions.

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e given up trusting their leaders," s Peter Praet, chief economist at gium's Générale de Banque.

Nowhere is the collision beween pol- s and economics graver than in nce. The government of President ques Chirac has strong parliamen- and regional backing, yet after just months in power, its indecision and sliding over budget management e left French consumers and inves- paralyzed with uncertainty. Busi- s confidence has recently plunged to recovery levels. Just 30% of voters say they approve of Chirac and his ne Minister, Alain Juppé.

ERTAIN FATE. The Continent's bank- are nervously eyeing the unraveling nch political and economic scene. Says is J. Baer, chairman of Bank Julius r Co.: "Europe has one big problem: nce." If France cannot cut its deficit igh to join a planned European mon- y union planned for 1999, this cher- d policy goal will collapse, with incal- ble effects on Europe's economy and Franco-German alliance.

aly's political problems could eventu- overshadow France's. Tax revenue the issue. Receipts have soared year by 10%, thanks to continuing ng export performance due to the k lira. But Italy's constitutional cri- and the uncertain fate of central ker turned Prime Minister, Lamber- Dini, have held budget policy hos- . The gridlock and the 15% drop in Milan Bourse since September could aten the November privatization of e-owned energy giant ENI.

f this year's economic harvest in Eu- e looks to be a bitter one, political ers have only themselves to blame. er the worst recession in decades, EU ers gambled that the recovery would robust enough to solve their econom- oes. So even though many govern- its recently came to power with man- es to cut deficits, no one made a rmined drive to cut spending.

et the current cycle hasn't bailed any regime. The tax hikes most ernments pushed through have kept opeans out of shops and showrooms. l the Maastricht Treaty, which policy ers hoped would vault Europe into monetary big leagues, is pressur- them into deflationary fiscal policies when economies need more breath- room. Says Felix W. Zulauf, head of tzerland's Zulauf Asset Management: ross Europe, authorities are impris- d by the idea of getting united." The Europe's recovery is going now als that the pursuit of union may l instead to a bruising recession.

By Bill Javetski in Paris, with Wil- n Glasgall in Zurich, Linda Bernier Brussels, and bureau reports

FOREIGN POLICY

BILL CLINTON, FOREIGN POLICY PRESIDENT

But will his recent round of successes prove ephemeral?

ROSY VIEW: *A feel-good meeting with Yeltsin glossed over the tough issues*

Bill Clinton's whirlwind schedule in New York signaled his unlikely transformation into a foreign policy President. On Oct. 22, the domestic policy maven addressed more than 140 world leaders to celebrate the U. N.'s 50th anniversary. Then came an upbeat round of *tête-à-têtes* with heads of state, from Russia's Boris Yeltsin and China's Jiang Zemin to Ethiopia's Meles Zenawi and Slovenia's Janez Drnovsek.

The gabfest comes on the heels of a string of successes: the Sept. 28 Middle East peace pact, the Oct. 5 cease-fire in Bosnia, and reduced tensions with China. After years of foreign policy fumbling, the winning streak has boosted the President's team. "Their general performance has enhanced the Administration's reputation," says one European diplomat.

But are the triumphs ephemeral? The same people who stumbled earlier—Secretary of State Warren M. Christopher and National Security Adviser Anthony Lake—remain in charge. The White House has no global framework for decision-making. And earlier Administrations paved the way for Clinton successes on the Middle East, the North American Free Trade Agreement, and a world trade accord. "Where the structure and framework were set, the Administration hasn't done badly," sniffs Robert B. Zoellick, a former GOP State Dept. strategist.

The Administration concedes that its global gambits don't stem from a grand

CLINTON HAS SCORED SOME POLICY WINS...

- Brokered Middle East peace pact
- Achieved progress toward Bosnian cease-fire
- Reduced tensions with China, Japan
- Helped stabilize Mexico's financial system

...BUT FACES CHALLENGES

- Should NATO be expanded despite Russian objections?
- Will rival armies derail Bosnian peace?
- Should China be admitted to World Trade Organization?
- Will Quebec independence spark a Canadian breakup?

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strategy. Decisions these days have to be made without "the kind of framework the bipolar cold-war world provided for so many years," Clinton said in an Oct. 6 speech. He called instead for a policy "based on trial and error and persistent experimentation."

Sometimes that strategy means sidestepping real problems. There were smiles and embraces galore when Clinton greeted Yeltsin amid the autumn pastels at Franklin D. Roosevelt's elegant summer White House in Hyde Park, N. Y. But the Oct. 23 feel-good meeting glossed over one of the most contentious and critical issues: whether NATO should be expanded to include former Soviet satellites such as Poland.

To its credit, the White House does appear to be trying to exercise real leadership on the world stage—beyond just posturing to domestic constituencies. Like many Presidents, Clinton is finding that he has largely unfettered clout in world affairs—a welcome respite from the domestic agenda the Republicans now dominate.

It was the Bosnia breakthrough that made it clear the Clintonites are determined to play a leadership role—and are ready to do so by sending troops to follow through on peace negotiations. "It would be ignoble to walk away," declares a senior Administration official.

NO PAYOFF. To stay on a winning path, the Administration will need a stiff spine in the months ahead. It is demanding that China commit to more market-opening concessions before joining the World Trade Organization. The U. S. is pushing ahead with NATO expansion despite Moscow's strenuous opposition. And hotheads could derail the peace processes in the Mideast and Bosnia. Putting troops in harm's way is "a very serious political risk," frets Democratic consultant Mark S. Mellman.

Strangely enough, even if the Administration handles all these issues deftly, there may be little political payoff at home. A late-October *USA Today*/CNN/Gallup poll shows that despite the favorable foreign policy headlines, Clinton's approval rating, at 49%, is still below his 51% approval in May.

Republican and Democratic pollsters say foreign policy can be a big negative for Clinton if he looks feckless, but it can never be a big plus because voters have tuned out foreign policy. If the Administration handles coming challenges adroitly, however, it just might be able to remove doubts that Clinton, after long being at sea, has finally found his foreign policy legs.

By Stan Crock in Hyde Park, N. Y.

COMMENTARY

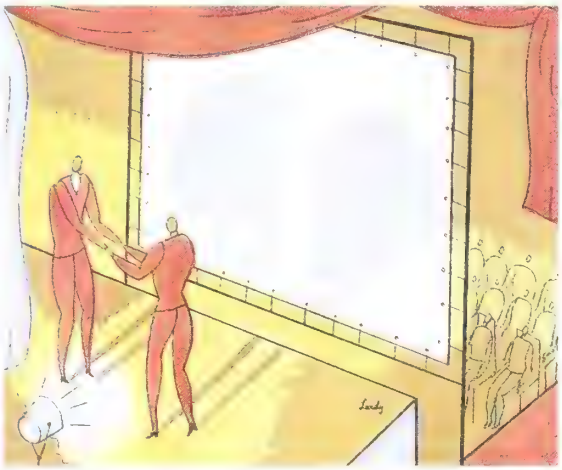
By Brian Bremner

WHY THE DAIWA SCANDAL IS JUST A BLIP

The headlines scream about U. S. help for Japan's ailing banks while congressional leaders summon witnesses on the Japanese coverup of a Daiwa Bank Ltd. bond-trading scandal in New York.

A Japanese meltdown? Major strains between the two governments? Hardly. What's really emerging is mounting evidence of a much deeper two-way flow of financial benefits that's tying Washington and Tokyo together as never before.

This financial compact began taking shape this summer. After blithely watching the dollar sink to extract trade concessions from Tokyo, Washington changed course as the Federal Reserve and Bank of Japan reined in a super yen that had threatened to push Japan into recession. The yen snapped out of trading in the 80 range and has achieved a remarkably stable value of about 100 to the dollar.



PRIORITIES. Washington's swerve from confrontation to conciliation stemmed partly from genuine worries about Japan's banking system. The banks are, after all, grappling with an estimated $800 billion in problem loans. But the new tone also owes much to the shifting priorities of Clinton Administration strategists facing an election in 1996 and the still considerable clout of Japanese investors, who collectively hold roughly $220 billion in Treasury bonds. During 1994, Japanese investors snapped up $43.2 billion worth of U. S. notes and bonds.

These are ties that bind. Having lived beyond its means for years, the U. S. relies on Japan to recycle surplus yen into Treasuries to cover budget shortfalls and trade deficits. Should Japan pull out, U. S. interest rates would soar. "We don't want to see that—nor does Washington," says a source in the international finance bureau of Japan's Ministry of Finance.

One reason it isn't likely to happen is a little noticed but important step MOF took in August. The ministry gave Japanese life insurers more freedom to recycle $1.8 trillion in assets into foreign-denominated bonds. The results were mutually beneficial. Japanese investors won access to U. S. yields, which are higher than interest rates offered at home; Americans in turn are enjoying a sharp capital influx. The proof: U. S. interest rates have plunged to their lowest level since early 1994.

Meanwhile, the yen's new value should help improve earnings, as reflected in the 24% advance in the Nikkei 225 from this year's low. A $140 billion economic-stimulus plan could help lift the economy out of its four-year stagnation. That might give MOF enough leeway to take a broom to Japan's banking system.

All of which explains why Washington is helping itself as much as it's helping Japan. And why the Daiwa incident is just a blip. Tokyo and Washington are engaged in mutual back-scratching on a massive scale. It's not clear whether the two quietly negotiated the arrangement or whether it happened because both sides needed something from the other. However it occurred, the deeper financial relationship will prove more enduring than today's headlines.

Bremner is BUSINESS WEEK's Tokyo bureau chief.

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CAN THE MIDEAST FIND ITS WAY OUT OF AN ECONOMIC DESERT?

The Middle East is passing milestones so fast they hardly draw notice. A peace accord between Israel and Jordan, signed one year ago, led to a trade accord between the two on Oct. 25. And the agreement between the Palestine Liberation Organization's Yassir Arafat and Israeli Prime Minister Yitzhak Rabin on Sept. 27 is leading to a pullback of Israeli troops from the occupied West Bank.

Now, says the Clinton Administration, it's time for business to capitalize on those achievements. That's why Secretary of State Warren M. Christopher will help kick off a three-day economic summit in Amman, Jordan, on Oct. 29 that is due to attract top executives from the West as well as the Arab countries and Israel. On the agenda: creation of a Mideast development bank and billions of dollars in infrastructure projects ranging from an Israeli-Jordanian airport to integration of Middle Eastern electricity grids.

GAZA BUILDERS: *Private capital is scarce*

SUCCESS STORIES. After wasting years on bickering and statist economic models, could it be that the Middle East is waking up to the need to join the world economy? At the end of September, Jordan introduced foreign investment legislation and a new streamlined tax code. Those countries that have carried out consistent economic reforms—Israel, Morocco, Tunisia, and Jordan—are seeing growth and investment flows pick up. Israel's economy, for instance, is growing at a 7% annual clip, and Jordan's at 6%. Says World Bank Senior Economist Nemat T. Shafik: "We are starting to see regional success stories."

Free-trade agreements due to be hammered out between the European Union and Mediterranean countries in the next couple of years—Tunisia signed one with the EU last July, while Jordan, Morocco, and Egypt are negotiating—also could light a fire under trans-Mediterranean commerce. Meanwhile, the EU is getting ready to announce a four-y $12 billion aid program slated for North African and Mid Eastern countries.

Another very important change is occurring in compan perceptions of risk in the region. As the likelihood of con declines, companies are losing their inhibitions about inv ing in these countries. In the early stages, Israel may be major beneficiary of this trend. Intel has just announce $1.6 billion flash memory chip plant in Israel—the largest dustrial investment in the Jewish state's history.

It's about time. For a region at doorstep of Europe, the Middle Ea economic record is appalling. With million inhabitants, the entire Mid East and North African area, excl ing Israel, today exports fewer ma factured goods than Finland, wit population of 5 million. Since 1986, per capita incomes in the Arab w have been dropping by 2% a yea the worst record in the develop world. By 2010, the Middle East have to create close to 50 million jobs. "There's no way you can do t unless you attract private investment," says Shafik.

Unfortunately, political problems are still inhibiting bu ness. Syria and Lebanon are boycotting the conference, some Lebanese executives who wanted to attend cancelled ter feeling government pressure. Many Egyptian, Palestini and Jordanian businesspeople are still reluctant to str deals with Israelis despite the peace agreements.

The Amman summit gives them a much-needed green li from their governments to do business. These regimes are uring out that without a competitive business environme they will fall far behind the Israelis and everyone else.

By John Rossant in Rome, with Kirk Albrecht in Amm and Neal Sandler in Jerusalem

GLOBAL WRAPUP

SOUTH KOREAN SCANDAL

▶ New revelations in Seoul could have deep political impact. Prosecutors have uncovered a secret $63 million bank account used by former President Roh Tae Woo and are pursuing allegations that the account was used for kickbacks on major projects, including the country's purchase of F-16 jet fighters, a national high-speed railway project, and nuclear power plants.

The scandal shows how far Korea has come. Prosecutors would have been unlikely to pursue such a case until recently. It might also benefit longtime opposition leader Kim Dae Jung by splitting the ruling Liberal Democratic Party between the conservatives supporting Roh and the liberal wing led by President Kim Young Sam.

CATHAY FLYING INTO TROUBLE?

▶ Hong Kong government officials say that China National Aviation, a Chinese state-owned charter airline operator, could receive a license to begin scheduled services from Hong Kong early next year. That would be bad news for Cathay Pacific Airways the colony's dominant carrier, whose shares fell 5.4% in the three days following the news.

Because the Chinese state-owned airline is not subject to the same profit pressures as privately owned Cathay, it could lay on enough capacity to put a competitive squeeze on Cathay. CNAC has hired a former Cathay official, who was instrument in starting Hong Kong's second airline, Hong Kong Dragon Airlines, to help advise it.

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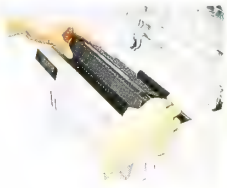

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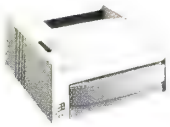

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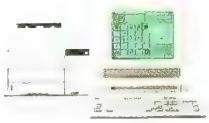

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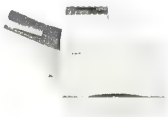

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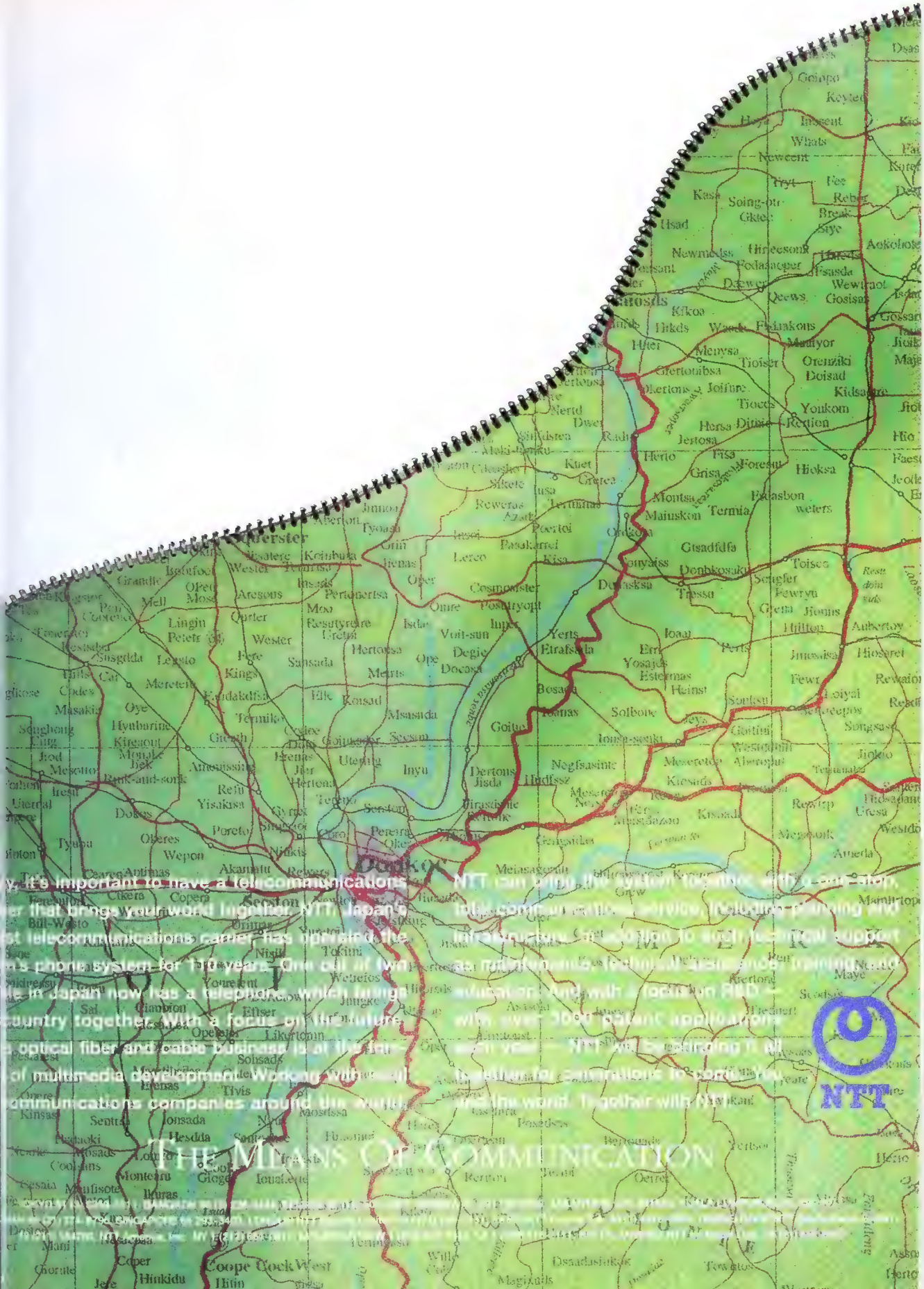
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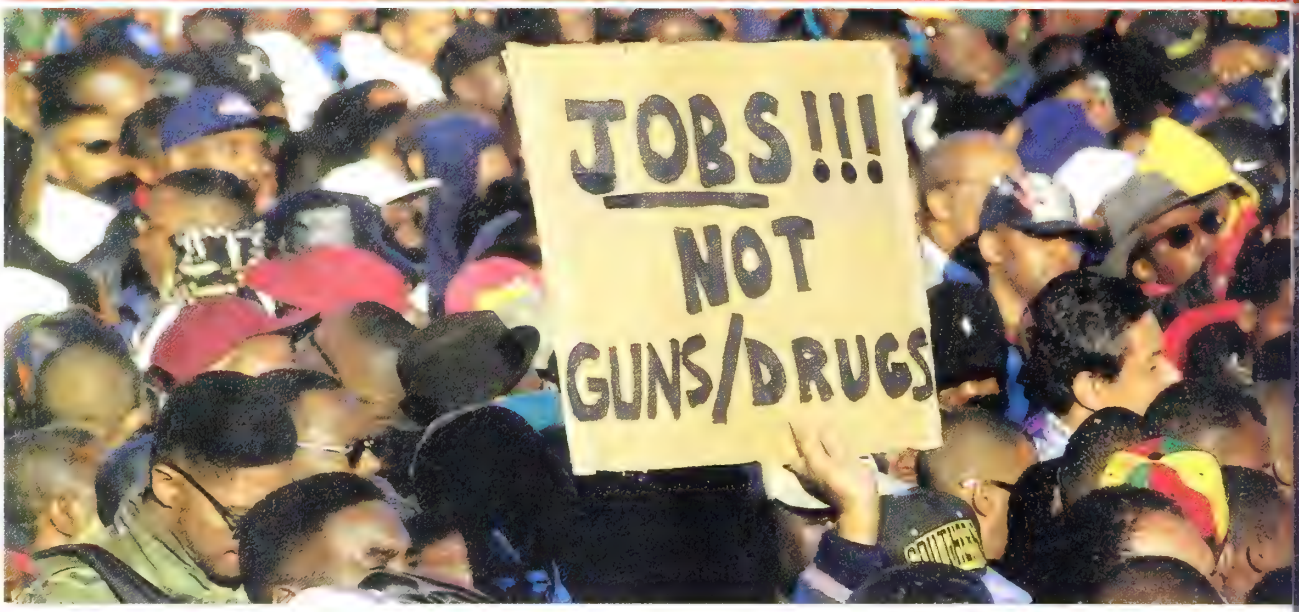


MILLION-MAN AFFIRMATIVE ACTION: *Solidarity—against mounting odd*

RACE

IS BLACK PROGRESS SET TO STALL?

Keeping up momentum requires robust economic growth

The Rodney King beating. The Los Angeles riots. The Mark Fuhrman tapes. White horror and black ecstasy at O.J. Simpson's acquittal. The controversies swirling around the Million Man March on Washington. Four decades after the Supreme Court's historic ruling in *Brown vs. Board of Education of Topeka* and 30 years after the Civil Rights Act of 1964, it seems little has changed in America.

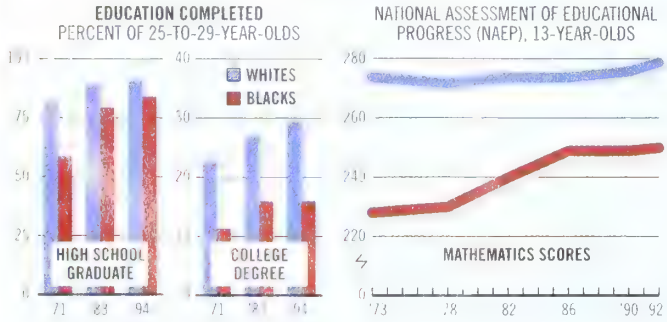
But a lot has changed. The common refrain that America is two nations—black and white, separate and unequal—smothers any appreciation of just how diverse the economic condition of black America has become during the past quarter-century. African Americans have made striking gains. Educational achievement is way up. The black middle class is flourishing. Black entrepreneurs are creating new businesses at a torrid pace. Last year, when the U.S. economy expanded at its fastest clip in more than a decade, black households enjoyed a 5% increase in median income—while white households show no gain.

At the same time, the economic between African Americans and whi endures. The median income of bl households is 60% of those of whi The figures on wealth are even wo Black households' median net worth $4,400 is a mere one-tenth of whi $45,700. The economic plight of the ban poor appears to be worsening. haps most important, many of the p erful economic forces changing Amer such as the job squeeze on the l skilled and less educated, affect bla disproportionately.

JEOPARDY. The gnawing fear is t black economic gains will stall. Cons vative broadsides against affirmative tion seem largely targeted at Afri Americans. Black educational gains pear in jeopardy from deteriorating ner-city public schools and the escalat cost of college. A shrinking governm and a consolidating health-care ind

African Americans Have Made Striking Gains

IN EDUCATION...



DATA: CENSUS BUREAU, EDUCATION DEPT

...AND WHITE-COLLAR JOBS

	PERCENTAGE CHANGE, 1989 TO 199	
	OVERALL CHANGE	BLACK CHANG
MANAGERS AND PROFESSIONALS	11.3	29.6
MANAGERS	9.9	31.1
MANAGERS, PUBLIC ADMIN.	15.2	44.9
SYSTEMS ANALYSTS	61.8	104.4
DOCTORS	14.6	45.9
REGISTERED NURSES	22.3	58.0
PSYCHOLOGISTS	33.3	43.7
LAWYERS	10.8	21.9
COLLEGE TEACHERS	18.2	37.4

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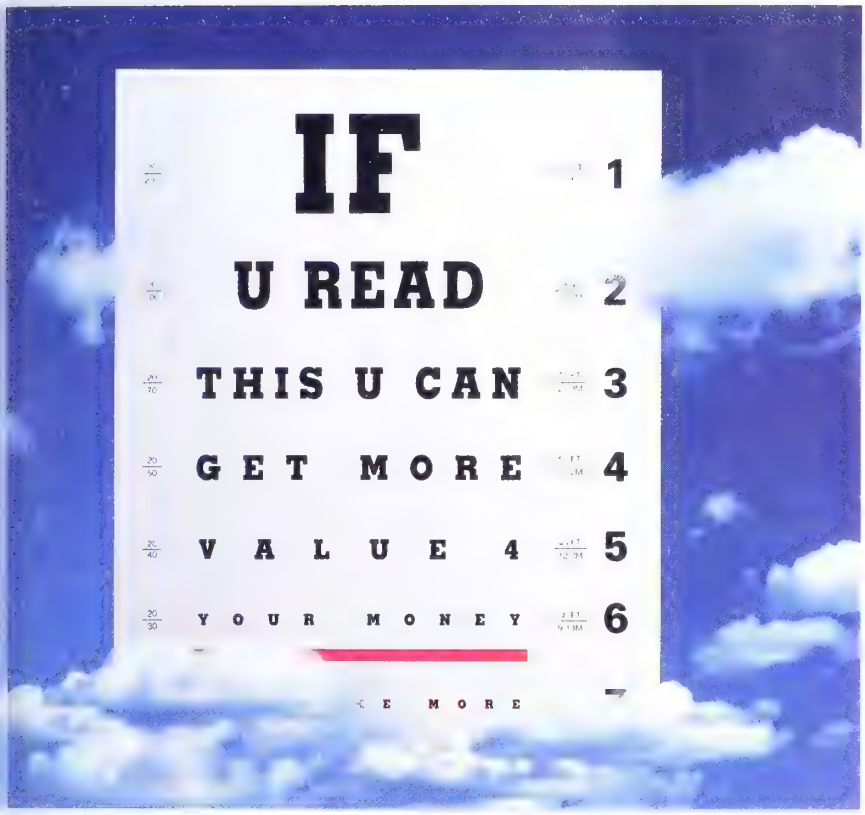

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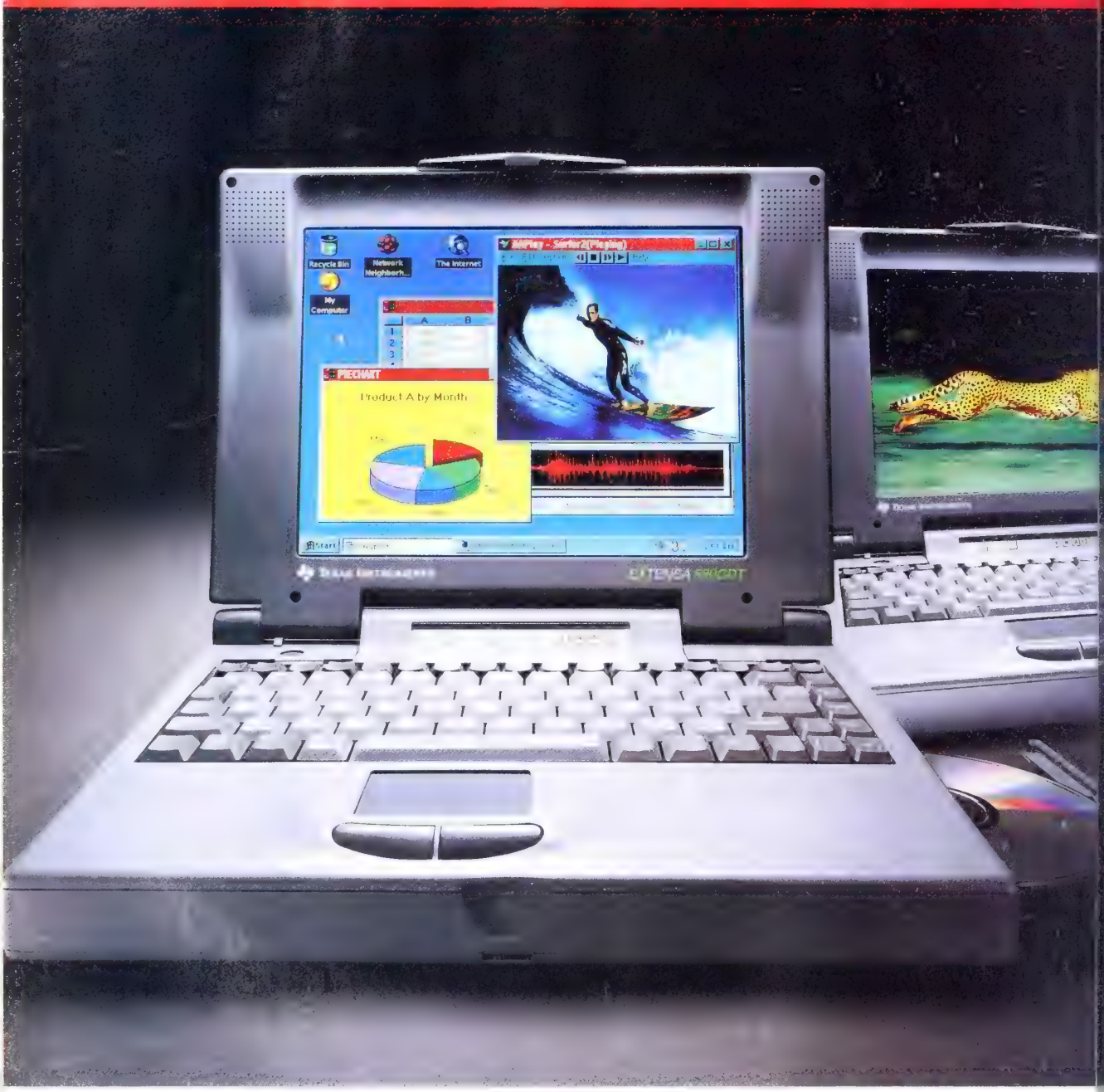
INTRODUCING
IT'S MORE MACHIN



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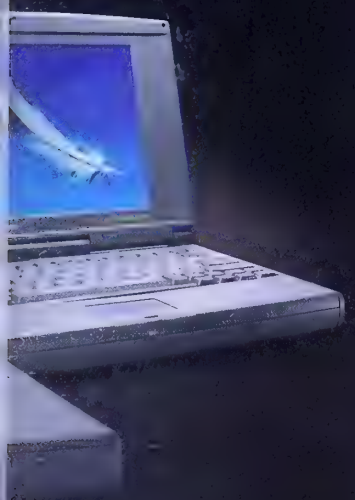

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try will offer fewer job opportunities to the upwardly mobile black. The Federal Reserve Board, determined to keep inflation under control, is dampening economic growth and new job creation.

Progress is most apparent in the dramatic expansion of the black middle class. Over the past 25 years, the share of black families earning more than $50,000, in today's dollars, has risen from 8% to more than 20%. The black middle class is narrowing the black-white earnings gap. Median earnings of college-educated black men employed as executives, administrators, and professionals in 1993 were 86% of their white peers, while college-educated black women actually earned 10% more than comparable white women. Over the past five years, the ranks of managers and professional blacks swelled by nearly 30%, vs. an overall increase of 11%. In particular, sharp gains have been made in the number of black mathematicians, computer specialists, doctors, psychologists, lawyers, and other professionals. Black officeholders wield power at all levels of government. General Colin L. Powell, former Chairman of the Joint Chiefs of Staff, is a potential Presidential candidate.

IN THE MONEY. These days, black executives are even starting to climb into the top rungs of management. Richard D. Parsons is president of Time Warner, Kenneth L. Chenault is vice-chairman of American Express, and Warren Shaw is chief executive at Chancellor Capital Management, a giant money-management firm.

Black entrepreneurship is advancing rapidly. Between 1982 and 1987, the number of black-owned companies rose by almost 38%, to more than 424,000, and receipts jumped by 118%, to $19 billion, according to the Small Business Administration. Black business owners, often armed with years of experience in Corporate America, typically compete in the broad marketplace. "I see the most dramatic change in entrepreneurship among African Americans," says John W. Rogers, founder of Ariel Capital Management Inc., the largest black-managed group of mutual funds. "There is more opportunity for African American-owned businesses than for African Americans trying to work their way through the bureaucracy."

"DRAMATIC CHANGE": *Rogers sees a surge in black entrepreneurship*

Strides in education undergird much of the improvement among African Americans. Black men and women have narrowed the academic gap between themselves and whites. The number of African Americans enrolled in colleges and universities has grown fivefold since 1965. Among 25-to-29-year-olds, 82% of the whites, as opposed to 59% of the blacks, had completed 12 years or more of schooling in 1971. By 1994, these figures were 91% and 84%, respectively. Black test scores have risen sharply. The share of black mothers with less than a high school education fell from 64% in 1970 to 24% in 1990.

Alarmingly, some of this progress now appears at risk. There is a core of inner-city youth who are losing ground. Despite being better educated, many blacks can't find jobs. In 1993, among recent high school graduates not enrolled in college, 72% of whites were employed, compared with 42% of blacks. Whites are still about twice as likely as blacks to receive a college degree, a ratio that hasn't changed much in the past 15 years.

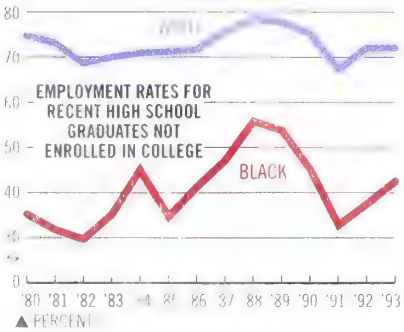
The move to downsize government may hurt black wo ers more than whi too. About 24% o blacks aged 16 a over are employed federal, state, and lo cal government, c pared with 1 for whites. Simila blacks are vulnera to the drive to sl Medicare, Medic and other health-c spending. For ex ple, blacks make 16% of the hosp workforce and 23% nursing and perso care employees. A "a large percentage clients of black ph cians are on Medicare or Medica With cuts in those programs, you see a dramatic impact on those hea care professionals," says Dr. Kneela Youngblood, an emergency-room ph cian in Dallas. Adds chemist Koli David Williams: "When there are cu we go first."

BOYCOTT. Support is also ebbing for firmative action. Recently, the Clin Administration eliminated the Defe Dept.'s affirmative-action program, a the Supreme Court limited the rea of federal affirmative-action progra Many blacks are worried that this harm their ability to get jobs—beca discrimination persists. For instan when the Urban Institute sent matched pairs of articulate, w groomed black and white job applica 15% of the white applicants got job fers, and only 5% of the blacks.

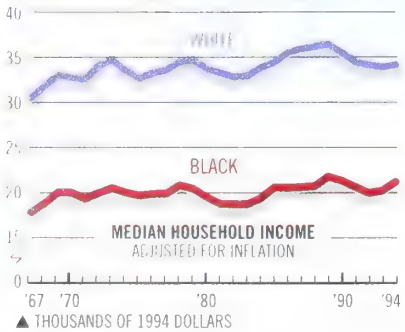
In Miami, it took a black boycott the tourism industry between 1990 a 1993 to open up opportunities for area's professionals. Out of the boyc came a three-year program, Miami Pa ners for Progress, a coalition of bu

Big Problems Remain

IN JOBS...



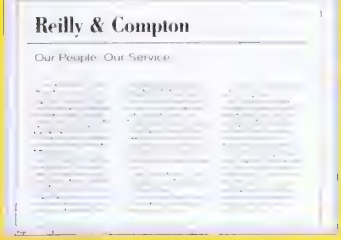
...IN INCOME...



...AND IN WEALTH

MEDIAN NET WORTH, 1993	WHITE	BLACK
ALL HOUSEHOLDS	$45,740	$4,418
LOWEST QUINTILE	$7,605	$250
SECOND QUINTILE	$27,057	$3,406
THIRD QUINTILE	$36,341	$8,480
FOURTH QUINTILE	$54,040	$20,745
HIGHEST QUINTILE	$123,350	$45,023

DATA: CENSUS BUREAU



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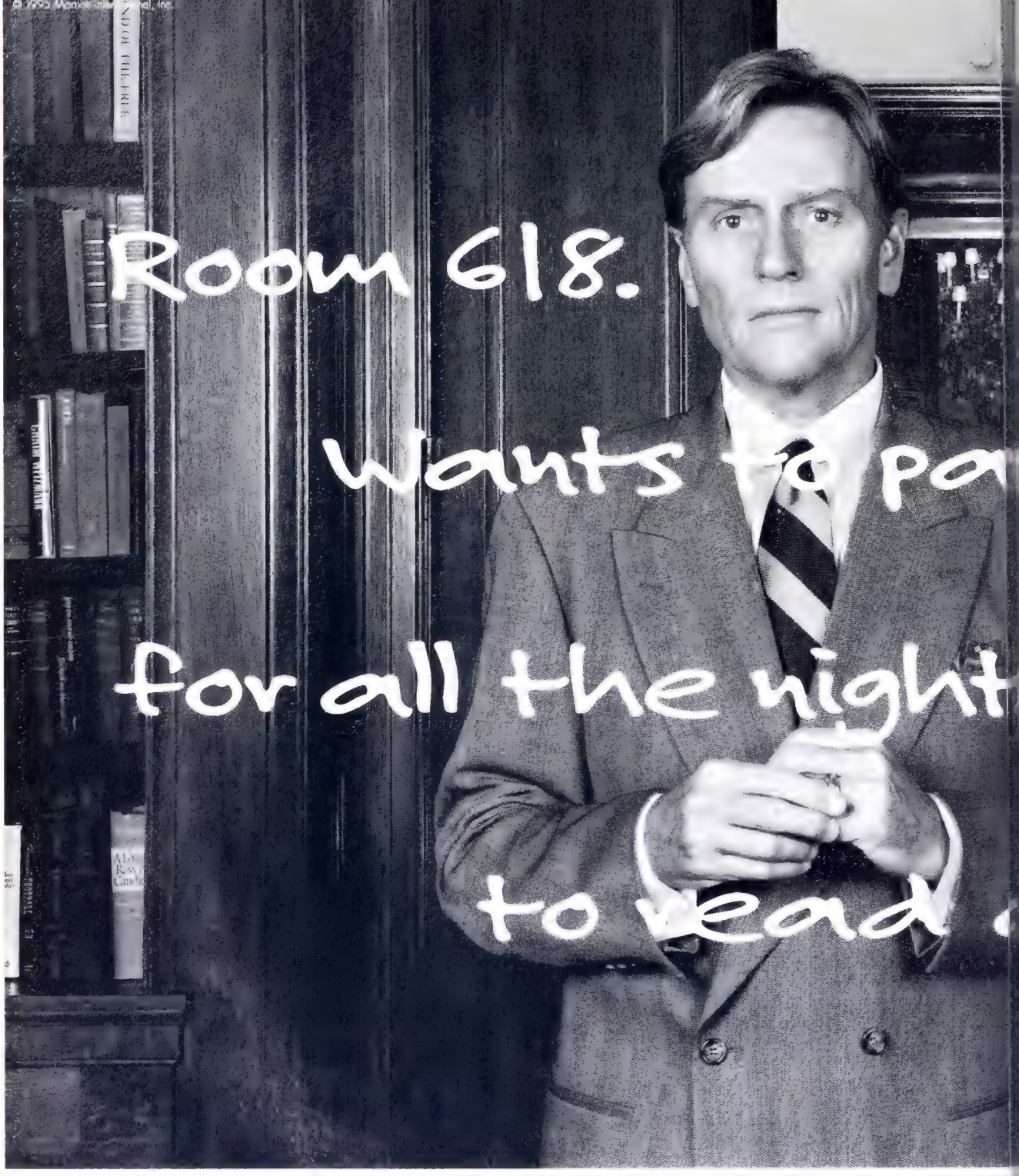

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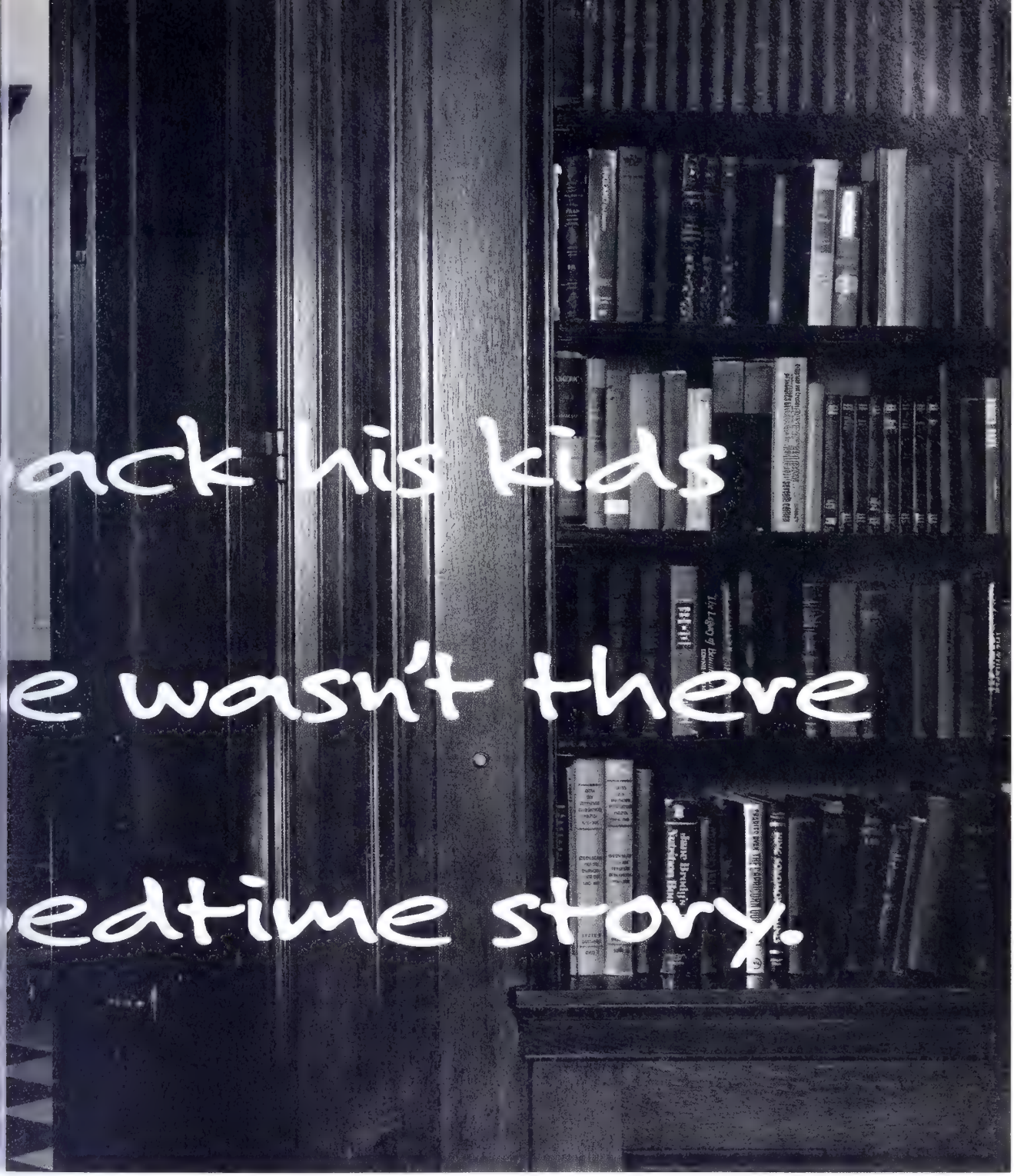

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ness and community leaders. The organization has placed 95 students with scholarships in hospitality programs, mostly at Florida International University and Miami-Dade Community College, and 20 African Americans from collegiate hospitality programs or related fields have gotten jobs. Large, established companies in the tourist industry are doing more business with black vendors.

TROUBLED YOUTH. The outlook is bleak for African Americans who lack job skills, though. Blacks have become high school graduates just in time to be hammered by the same brutal international competition and technological change that have hit white unskilled workers. Over the past two decades, entry-level wages for both white and black male high school graduates have dropped by about 30% after adjusting for inflation, according to the Economic Policy Institute. But blacks have been hit especially hard because their wages started out lower.

The forces transforming America from an industrial-based economy to a high-tech powerhouse have had a devastating impact on the poor. In many inner-city neighborhoods where manufacturing once flourished, less than 40% of black adults are gainfully employed. Nearly one in three black men 20 to 29 years old is in federal or state prison, jail, probation, or on parole, according to the Sentencing Project in Washington. More and more black children are growing up in poverty. Some 60% of African American families with children are headed by the mother, and more than half of black female-headed households live below the poverty line. Says Marvin Dunn, director of African-New World Studies at Florida International University: "We will end up with an alienated, disaffected, angry, young segment of the population, and that's the formula for disaster."

Everyone agrees it would be a calamity if African Americans' economic progress of the past half-century ground to a halt. These days, economists are focusing on ways to improve public schools, revitalize neighborhoods, and open up employment for poor and working-class Americans, black and white. What Washington policymakers have to consider is that no reform can work without strong economic growth. Robust growth raises incomes of both whites and blacks. More important, it attacks the pinched economic conditions that allow racism to flourish.

By Christopher Farrell in New York, with Gail DeGeorge in Miami, Richard A. Melcher in Chicago, Stephanie Anderson Forest in Dallas, and bureau reports

POLITICS

GIMME THAT OLD-TIME MARKETING

Business savvy fuels the Christian Coalition's swift ascen

Shortly after his 1988 Presidential campaign fizzled, religious broadcaster and multimillionaire entrepreneur Pat Robertson sat down for lunch at a Virginia Beach (Va.) diner with a baby-faced 29-year-old PhD named Ralph Reed Jr. Munching on a steak sub, Robertson outlined an ambitious vision for a new startup venture—a grassroots movement to infuse American politics with his brand of social conservatism. The next day, Reed, executive director of the Christian Coalition, produced a 10-year business plan to transform Robertson from political pariah to kingmaker.

BLESSED SYNERGY: *Robertson's media empire gives Director Reed's coalition free promotion*

Reed's blueprint has exceeded all expectations. By combining state-of-the-art marketing techniques with evangelical fervor, the Christian Coalition has soared in six years from 1,000 to 1.7 million members, with its influence spreading from local school boards to Capitol Hill. It dominates some 18 Republican state organizations, and nearly all the 1996 GOP White House hopefuls are seeking its blessing. The group's next show of clout comes at a Nov. 18 Republican Presidential straw poll in Orlando. The neutral Reed—who learned realpolitik under Jesse A. Helms and Jack F. Kemp—hopes to pack the hall so that whoever wins will owe the coalition a big political de Says Claremont McKenna College p fessor Ed Haley: "They've made a hu difference for Republicans. They pac political sting in their tail."

Is the coalition's phenomenal grov a striking testament to the power faith? Only partly. Robertson and Re have also looked to a decidedly m secular source for inspiration: Big Bu ness. They've employed textbook form las for targeted marketing that wo make an MBA proud. After developing core customer base of evangelical Chr tians, they've broaden their message to widen th appeal. Using polls and fo groups, the coalition h added issues such as "p family" tax cuts, tough ar crime measures, and grea local control of schools to religious priorities of sch prayer and abortion curb

E-MAIL FLOOD. To advar that agenda, Reed relies state-of-the-art technology the Internet, phone ban high-speed faxes, and sat lite downlinks. Last fall, example, the coalition flood Congress with tens of th sands of phone calls, te grams, and E-mail to block a lobby-r form bill requiring greater disclosu by some Christian activists.

Finally, like any well-run corpora subsidiary, the coalition has develop synergies with other parts of Robe son's empire, which generates more th $500 million in annual revenues. Amo its holdings: the Christian Broadcasti Network; the American Center for La & Justice, a conservative legal found tion; Regent University, a religio school in Virginia Beach; Operati Blessing, a nonprofit humanitari group; and the International Family E tertainment cable-TV consortium.

The family ties can be critical. F example, the coalition gets free prom tion through Robertson's daily TV sho

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The 700 Club, available to 95% of U.S. cable households. Recently, Reed promised to get Representative David M. McIntosh (R-Ind.) on *The 700 Club* to push a bill to curb lobbying by liberal nonprofit groups, a coalition priority. "This amounts to an enormous in-kind contribution," grouses Barry W. Lynn, executive director of Americans United for Separation of Church & State.

Robertson's empire benefits, too. This year, Reed donated a $50,000 advance from the coalition's new book, *Contract With the American Family*, to Operation Blessing. And the soft-spoken Reed provides political cover for the controversial Robertson, whose preaching against a shadowy global banking conspiracy and the separation of church and state frightens many mainstream voters.

Key to the financing of Reed's plan is aggressive membership development. In 1994, the coalition spent $1.6 million renting other telemarketing lists—whose sources ranged from Christian magazines to discount retailers—in search of converts. Reed's goal: 10 million Christians by the year 2000, including a million enlistees in the Catholic Alliance, a subsidiary launched on Oct. 11.

RUFFLED FEATHERS. Businesslike promotions have helped the coalition fatten its coffers as well. Some state affiliates have negotiated contracts with Lifeline Inc., a long-distance carrier that lets subscribers donate 10% of their bills to a broad range of nonprofits, including the coalition. But the campaign has ruffled some corporate feathers. In urging Christians to use Lifeline, Arkansas Coalition Chair Kevin D. McCray accused AT&T, MCI Communications, and Sprint of promoting antifamily activities by doing business with homosexual groups and sponsoring sex-filled TV shows. MCI and Sprint deny the charge. AT&T spokesman Burke Stinson fires back: "It's in their interest to bash AT&T, MCI, and Sprint—they convince people to switch long-distance carriers to Lifeline and line their own pockets."

Thinking like business execs has helped Robertson & Co. avoid pitfalls that stalled other loose-knit conservative religious movements such as the Reverend Jerry M. Falwell's Moral Majority. Robertson chairs the coalition's tightly controlled board of directors, whose other two members are longtime friends: Dick Weinhold, his 1988 campaign finance director, and the Reverend Billy McCormack, the coalition's Louisiana chair. Reed, the $122,500-a-year director, oversees 60 staffers at a headquarters in a Chesapeake (Va.) industrial park. His management team—much like that of a typical company—includes a chief financial officer, field operations director, head of government relations, and customer-service manager.

Reed closely commands affiliates by structuring them as franchise-style operations. He requires state groups to sign legally binding agreements that give him power to revoke licenses of any affiliate that strays from the fold. That was a problem for Falwell, who couldn't rein in a Maryland chapter that launched an embarrassing crusade against an Annapolis bakery that made anatomically correct gingerbread figures.

With Robertson providing plenty of free advertising for the coalition's fundraising, Reed is able to spend 65% of donations on issue-oriented campaigns.

> Reed keeps tight control of affiliates, which are structured like business franchises

Examples: distributing 17 million sc cards that grade members of Congr on pro-family issues and making 90, calls to mobilize members against Clinton health-reform plan. "We're sel a product here," explains coalition lob ist Brian C. Lopina. "We make a s when someone calls their Congressma

DIVIDING THE GOP? Critics contend t the coalition's emphasis on politi causes—and its cozy ties to the GO require it to register as a political co mittee. That would force the group disclose its secret list of donors a limit spending on elections. The Dem cratic National Committee is ask the Internal Revenue Service to de the group's pending request for ta exempt status because of its deep po ical roots.

Even in Corporate America, some ecutives fear the coalition's focus on visive social issues will overshadow t conservative economic agenda th unites Republicans. The group "is n doing anything to bring mainstrea people to the party," grumbles Richa V. Quinn Jr., vice-president of the Pr cipal Financial Group. "It's going to vide and weaken the party."

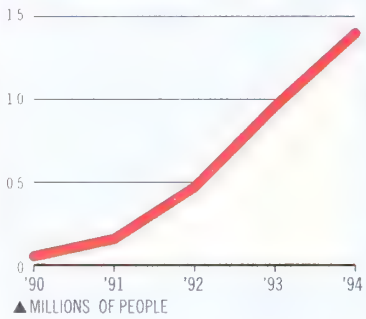
Reed dismisses such grousing and sists the coalition is on solid leg ground. Even if Democrats were to p vail, he says, "all that would happen we would set up a political committ and funnel some of our money fro that. It's not going to stop us."

Critics would reluctantly agre Reed's strategic savvy, Robertson's nancial resources, and eager foot s diers ready for a crusade make t Christian Coalition a fierce competit for the Establishment. And its politi stock seems likely to keep rising f years to come.

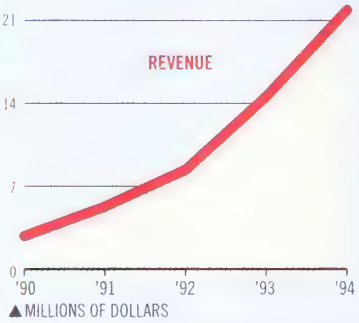
By Mary Beth Regan in Chesapeak Va., and Richard S. Dunham Washington

THE CHRISTIAN COALITION'S RISING INFLUENCE

SOARING MEMBERSHIP...



...AND FATTENED COFFERS...



DATA: CHRISTIAN COALITION, BUSINESS WEEK

...HAVE MADE IT A POWER IN WASHINGTON

LOBBY REFORM The group mobilized 250,000 people in 24 hours to kill lobby-reform measures in October, 1994, that would have required grass roots activists to register as Washington lobbyists.

CONTRACT WITH AMERICA The coalition spent $1 million in support of the GOP contract.

TAX RELIEF The group succeeded in getting a $500-per-child tax credit included in the GOP tax package, in part by flooding key senators' phones with calls while marketing the credit as pro-family

TRUCKS '96

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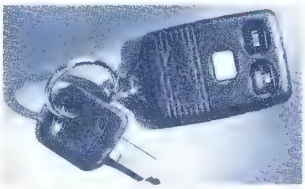

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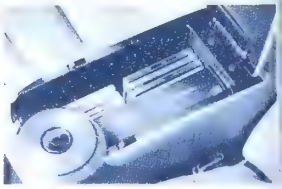

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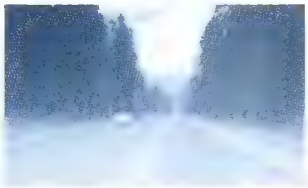

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Ford Explorer Limited.

Trucks. They're becoming America's car of the '90s. They account for about 45% of all vehicle sales already, and are all but certain to hit 50% by the end of the decade. It's unprecedented, and it's not just happening in vans, pickups, and sport utility vehicles where most truck sales occur. Medium- and heavy-duty trucks, whose markets respond to very different factors, are booming, too.

Why the popularity? Today's trucks blend comfort, utility, and versatility like nothing else on four wheels. They're also stretching the traditional definition of "truck" to encompass decidedly carlike characteristics. That's no accident, since most light-duty trucks are used for personal transportation.

More importantly, the long-running boom in light-duty truck sales is being driven by former car owners and dual-vehicle households who expect their new trucks to provide the same quality and creature comforts of the four-door sedans parked in their garages. These days, that's exactly what they'll get. For top-of-the-line trucks, features and trim levels rival any luxury car.

Truck performance—power, ride, and handling—has begun to rival cars, too. Zippier engines are giving many trucks zero-to-60 acceleration times similar to those of high-performance cars built a decade ago. Today's trucks drive dramatically smoother, thanks to more sophisticated suspension systems. And handling is crisper. There's still no mistaking a truck for a sports car. But even that distinction is fading as manufacturers continue to raise the bar on truck performance.

The twin forces of market demand and federal regulation are making trucks safer as well. Crash statistics show trucks have always been as safe as cars, largely because of their sturdy construction, high riding position, and weight. But buyers want the same safety features they get in their cars. Now truck manufacturers are rushing to beat federal deadlines for installing such automotive safety features as dri airbags, antilock brakes, and door beams that protect against side impacts.

America's mania for trucks didn't happen overnight. Trucks have been slowly claiming an increasing share o

HOMBRE

The new Hombre from American Isuzu Motors shares its platform with Chevrolet's compact pick-up. The truck's unique body panels were designed in the U.S. and Japan and are stamped in Brazil by General Motors. Final assembly is at GM's truck plant in Shreveport, La.

OUTLOOK ON TRUCKS

BY J. DAVID POWER, PRESIDENT, J.D. POWER AND ASSOCIATES

With four out of every 10 buyers purchasing a light-duty truck today, the truck market has not only arrived but is here to stay. We can't expect it to keep growing at the rates of the past four or five years, but it will remain a substantial part of the personal- use market.

J.David Power

In fact, the light-duty truck market has redefined what "personal use" means in the automotive industry. Consumers are basing their purchase decision upon the need for a personal transportation vehicle rather than a "car" or "truck."

What has driven the sometimes astounding rise in truck sales? One of the main reasons is a steady rise in quality, especially in the compact truck segment that we have tracked for many years. Compact trucks had 180 problems per 100 vehicles in 1990, according to our Light Truck Initial Quality Study (IQS). This year, the incidence of problems in that category had shrunk to 128 problems per 100 vehicles.

When we first included all trucks in the IQS three years ago, the problems per 100 level was 147. By 1995 it had been reduced to 126. We expect this trend to continue as engineers and designers focus upon developing vehicles—whether cars or trucks—that better meet the needs of consumers.

People who in past years would have bought a near-luxury or luxury car are now opting for sport utilities and minivans. And women are making their presence felt in the truck marketplace in a big way. They already buy 40% of all sport utilities and 25% of all full-size pickups.

Thus vehicle manufacturers are shifting from a mentality of producing trucks for one market and cars for another to one of building vehicles to encompass the marketplace as a whole.

Those who do this most successfully will continue to reap the rewards of meeting and exceeding customer expectations in the light-duty truck market. And that augurs well for the future of the marketplace.

THE IQS SURVEY

Virtually every car and truck manufacturer nervously anticipates results of the annual Initial Quality Study (IQS) conducted by J. D. Power and Associates of Agoura Hills, Calif. The survey measures the type and number of problems experienced by owners during their first 90 days of vehicle ownership. Good results are quickly trumpeted as proof of superior quality.

The study summarizes its results by ranking vehicles according to their "average number of problems per 100 vehicles." The survey also calculates an industry average so manufacturers can see how they rank against the competition.

The IQS compiles written survey results from more than 36,600 owners of all makes and models of passenger cars and light-duty trucks. It tracks 89 problem areas in 12 categories: water leaks, electrical/accessories, interior, body, exterior paint/moldings, temperature control, squeaks and rattles, engine, steering/handling, transmission, brakes and wind noise.

Questions zero in on such specifics as rough-shifting transmissions, brakes that pull to one side, squeaky instrument panels and dirty interiors. Manufacturers pay to get detailed results while J. D. Power publishes a brief summary for the news media to report.

the U.S. new-vehicle market for more than 30 years. In recent years, they have taken about two points of market share away from cars annually.

That's good news for Chrysler Corp., where 60% of vehicle sales are trucks, including the company's popular minivans. "The market," says Bernard Robertson, Chrysler's vice president of engineering technologies and general manager of Jeep and truck operations, "is coming to us." Chrysler isn't the only one to think so: Last year Isuzu dropped cars from its lineup of vehicles and now sells only trucks in the United States. It has two new entries for '96: Oasis, a version of Honda's Odyssey minivan; and Hombre, a restyled version of the Chevrolet S10 pickup truck.

The current U.S. truck boom took off in 1991, zooming more than 45% in three years to a record 6.1 million units, including imports, by the end of 1994. Sales are running strong again this year against a slight decline for cars.

When will it all end? Not anytime soon, to hear manufacturers tell it. Many of them are beefing up their truck-making capacity and scrambling to add new truck models, especially in the highly profitable sport utility segment.

Industry analysts believe demand for trucks will continue to grow more quickly than for cars into the next century. Since overall growth in vehicle demand is expected to average just 0.5% annually over the period, trucks may be the industry's brightest sales story for years to come.

A MATTER OF DEFINITION

What, exactly, is a truck? Pickups definitely qualify, but consumers debate the definition of a van or sport utility vehicle (SUV). Minivans are deliberately carlike, often using engines and suspensions originally developed for cars. Full-size vans and SUVs often share the platform of a pickup truck. But where do such pint-sized sport utilities as the Geo Tracker, Kia Sportage, or new Toyota RAV4 fit in?

"It's not a question of 'cars' and 'trucks,'" says Kurt Ritter, Chevrolet truck marketing manager. "You've got 'car-trucks' that are vans and sport utility vehicles being used as cars, an

DODGE

Dodge Caravan and its twin, the Plymouth Voyager, undergo their first major restyling in 12 years. New for '96: more interior room, a tighter turning radius, roll-out back seats, built-in child safety seats that are easier to use, and optional wiper heaters.

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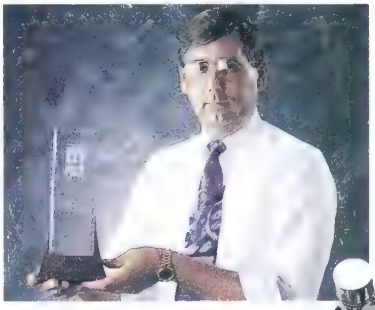

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'truck-cars' like pickups that are truly trucks but which are becoming more carlike in comfort and convenience."

Then there is the emerging group of vehicles that Ritter calls "tweeners." They're sport utility vehicles or small pickups built upon car rather than truck platforms. These vehicles can't match the off-road ruggedness of a true truck, but they can provide carlike ride and handling in a vehicle with trucklike utility.

The proliferation of models in the truck market reflects the uncertainty among marketers about exactly what consumers are looking for in a van, pickup, or SUV. "There are big gaps between what people buy for and what they use for," notes Ritter. "When you buy, you're satisfying your emotional and psychological needs as well as your functional needs."

TO BE OR NOT TO BE

The difference between a "car" and a "truck" may not matter much to consumers. They're much more interested in what a vehicle does than what the industry wants to call it.

But definitions are a big issue to manufacturers. The reason: Cars and trucks must meet entirely different federal safety, emission, and fuel economy standards. Sorting out where a vehicle fits has significant impact on how it is designed, engineered, equipped, and priced.

You'd think federal definitions would make it all clear. But think again. Here are the guidelines most govern ment agencies follow in deciding whether a vehicle is a car, truck, or "multipurpose vehicle":

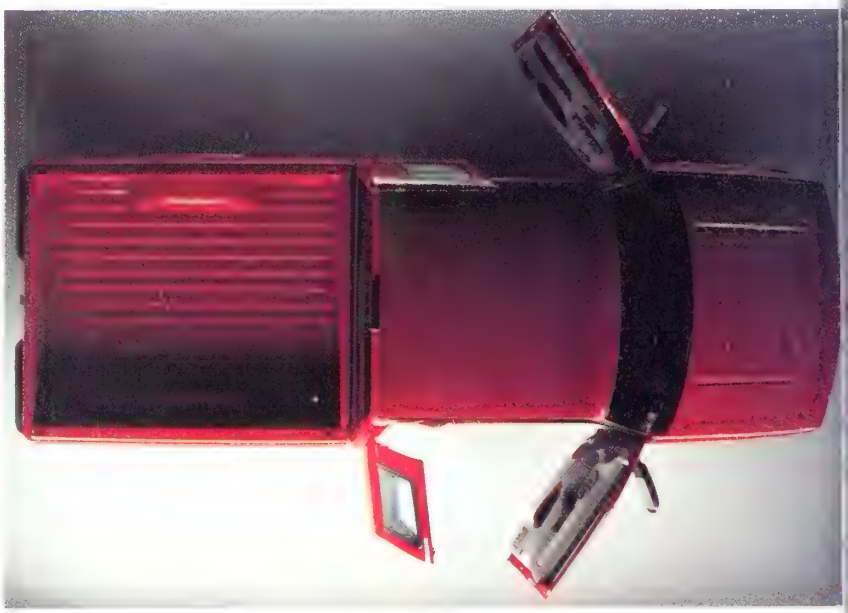
CAR: A motor vehicle designed to carry 10 people or less. (Vehicles bui for more than 10 people are buses.)

TRUCK: A self-propelled vehicle designed primarily to transport prop ty or special equipment.

MULTIPURPOSE VEHICLE: A vehicl designed to carry no more than 10 pe ple, and either built upon a truck cha sis or equipped for off-road operatio

Such definitions leave plenty of room for interpretation. Thus minivai are considered trucks even though th are built upon car platforms. Importe SUVs are trucks if they have two door and cars if they have four doors. SUV

CHEVROLET



Extended cabs give pickup trucks a back seat. Now rear seat access is improved with a third door. Chevrolet offers the door on the driver's side in its S-10 series compact pickup (above) and on the curb side in its full-size line (right).

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built by U.S. auto makers are trucks no matter how many doors they have.

WHO BUYS TRUCKS?

In a word, just about everyone. Vans, pickups, and sport utility vehicles appeal to buyers of both sexes, all age groups, and every income level. This year five of the 10 best-selling vehicles in the United States are trucks, including the top two: Ford F-series pickups, the most popular vehicle in America for 13 years running, and Chevrolet C/K pickups.

Today at least 75% of light trucks sales are to buyers who intend to us their vehicles for non-commercial pr poses. The reverse was true 15 years ago. Even in the full-size pickup seg ment, the one consumers describe a the most "trucklike" in the market, roughly two-thirds of all buyers mak their purchase mainly for personal transportation.

Sure, these "civilian" truckers wil use their vehicles to haul lumber an furniture on occasion. But for many, the potential utility of a truck as mu as any real need that clinches their purchase.

Catering to such buyers presents truck makers with a tricky choice. Should they stick with tough but som times rough-riding products for the sake of the truck's go-anywhere imag Or should they switch to softer vehic that are really cars masquerading as trucks?

Increasingly, manufacturers are choosing "none of the above." They a trying to engineer trucks that are as tough as ever, yet more user-friendly than anyone thought possible a deca ago. Declares Trevor Creed, director Jeep and truck interior design at Chrysler Corp., "There's absolutely n reason why pickups have to have a buckboard ride or be less modern inside compared to cars."

SEGMENTED APPEAL

Almost every consumer finds at least one form of truck appealing. But buyers are very discriminating. Market research confirms that pickups, vans,

KIA SPORTAGE

Sportage is an all-new mini-SUV from Korea's Kia Motors Corp. A long wheelbase provides comfortable seating for five in a vehicle measuring just over 13 feet in length.

The four-door offers a 139 horsepower engine, power windows, alloy wheels, antilock brakes, and airbags. Base price: about $15,300.

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and SUVs each attract a separate "typical" buyer. And buyer profiles often differ significantly within each segment.

Consider minivans and sport utility vehicles. Both are more attractive than pickups to first-time truck buyers. Yet each appeals to very different groups The main reason: Minivans are "life stage" vehicles while SUVs are "life style" vehicles.

Thus minivans make the most sense to people with small children to shuttle around. Seating capacity and ease of entry and exit are top priorities. Once the kids are on their own, however, minivan owners may switch to a car or sport utility vehicle.

SUVs appeal to a sense of safety (four-wheel drive), adventure (off-road capability), and practicality (a "car" with room to haul lumber or a load of bricks). They also include a wide range of products that attract an extremely broad cross-section of consumers, from high schoolers on a budget to middle-aged drivers with household incomes approaching $200,000.

"Real" truckers may opt for a pickup. But even here, the reasons for doing so vary widely. Some compact-truck buyers want an inexpensive alternative to a small car. Others want a work-oriented vehicle to supplement the car they own already. Still others yearn for a four-wheel drive "style" vehicle with big tires, a light bar mounted in the bed, and fancy graphics on the side. Each of those definitions describes a different buyer market.

To make things more complicated, truck buyers in one part of the country like their vehicles configured differently than those in another. One example: They love diesel pickups in Texas but manufacturers can hardly give them away in the Northeast.

WHAT ABOUT FUEL ECONOMY?

It's no surprise that trucks don't match cars in fuel economy. But if the boom in truck sales is any indication, consumers don't mind the difference.

Trucks must meet their own federal Corporate Average Fuel Economy (CAFE) numbers, just as cars do. But where a manufacturer's car fleet is supposed to average 27.5 miles per gallon, its light-duty truck fleet need achieve only 20.7 m.p.g.

In fact, Detroit's Big Three automakers are currently running about half a mile per gallon below the truck CAFE

DODGE RAM

Dodge's distinctively styled Ram pickup truck line adds a big V-10 engine in 1996 that outpowers the competition. The 488 cu. in. power plant produces 300 horsepower and 450 pound-feet of torque.

Ironically, it's the quiet trucks that give you the most volume.

The engineers of Dodge Ram and Dodge Ram Club Cab spent a great deal of their time in isolation.

They spent time isolating wind noise, for example, by triple-sealing the doors and by creating a form-fitting cover for the antenna. They helped isolate road noise with a mastic floor covering that absorbs sound. And they helped isolate engine noise, utilizing layered sound-deadening materials.

All of which served to create a living area in which *you* will feel comfortably isolated: the spacious interior of Dodge Ram and Dodge Ram Club Cab. The roomiest pickups on the road.

Within Ram's interior you can enjoy the convenience of an available 40/20/40 bench seat, with a fold-down center console that turns your truck into a mobile office. Ram regular cab offers an ingenious behind-the-seat storage system. While Ram Club Cab's tip and slide seating provides easy access to the rear passenger area. The rear seat itself is refreshingly large and constructed utilizing Dymetrol™, a revolutionary material that conforms to the occupant's unique physique, for optimum comfort.

Here's more comforting news: Dodge Ram has better resale value than Ford, Chevy or GMC.*

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standard. They are allowed to use credits from other years to avoid paying fines for the shortfall, due mainly to consumer demand for big trucks and big engines. "The market," notes Chrysler's Robertson, "clearly is not voting for CAFE or the things that help improve CAFE."

All that could change suddenly with another fuel crisis, of course. Truck manufacturers are steadily improving the fuel economy of their models and have tried to broaden their lineup of engine options. Still, concedes Robertson, "A fuel shock would be a problem for everybody."

HOT SUVS

The explosion in demand for sport utility vehicles is nothing short of phenomenal. Sales were up about 12% last year alone, and are running well ahead of that now. Volume topped 1.5 million units in 1994 and should easily surpass that level this year.

The boom has attracted more than 22 SUV nameplates so far, and more are on the way. Among the producers either expanding their SUV lineups or reportedly planning to plunge into the market are Acura, BMW, Chevrolet, Dodge, Ford, GMC Truck, Infiniti, Kia, Land Rover, Lamborghini, Lexus, Lincoln, Mercedes-Benz, Mercury, Mitsubishi, and Toyota. "Every manufacturer," concludes Aaron Shin, marketing plans manager for the Explorer SUV and Ranger pickup at Ford Motor Co., "wants to be in that market."

It's not just a question of sales volume. SUVs, especially those at the luxury end of the market, also offer their manufacturers very attractive profit margins. But are there enough buyers to support all those manufacturers vying to capture a piece of the sport utility market? Producers are very determined to succeed. "You almost have a situation where failure is not allowed," says Ken Thomas, the sales and marketing manager largely responsible for the new SUV Lexus plans to introduce next year.

Marketing experts say consumers like sport utility vehicles because they satisfy such a broad range of needs. What other vehicle combines the safe and security of four-wheel drive, roominess for passengers and cargo, a

CHEVROLET EXPRESS

Chevrolet's full-size van gets a new name, Express, and its first major redesign in more than two decades. Now built with a "body-on-frame" configuration instead of the previous unitized construction, it offers a new interior and more room.

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high seating position, and the ability to double as an off-road play vehicle? Says Shin, "It's one vehicle that offers everything people want."

GOLDEN DEMOGRAPHICS

Another reason manufacturers are jumping into the sport utility market is that such vehicles attract the highest income group of any major vehicle market segment. Average household income for buyers of top-end Jeep and Ford Explorer models are over $100,000, for example, and such households frequently own a luxury car as a second vehicle.

Manufacturers see plenty of sales growth for SUVs. About four out of five SUV buyers previously owned some other form of vehicle. At the same time, half of existing SUV owners buy another one, a relatively high repurchase rate.

Such research tells marketers that SUVs are a "life style" vehicle rather than a "life cycle" vehicle. Conclusion: sport utilities represent a more enduring market than, say, sports cars. Says Ford's Shin, "People tend to come into the segment and stay."

THE NEW OLDIE

Forerunners of the sport utility vehicle date as far back as the 1930s. Four-wheel drive has been around since World War II. Ford and Chevrolet introduced their first SUVs in the 1960s.

Those early SUVs were little more than pickup trucks with enclosed load beds. Rough-riding gas-guzzlers, the vehicles appealed primarily to true sportsmen who didn't mind a bare-bones interior and lack of carlike amenities.

Oil shocks and a sluggish economy all but obliterated interest in these early off-road vehicles by the end of the 1970s. When the genre was reinvented in the early 1980s by the arrival of the smaller and more fuel-efficient Chevrolet S-10 Blazer and Ford Bronco II, sales of SUVs zoomed. Compact sport utilities currently claim about 90% of the SUV market.

The 1980s also saw consumers telegraphing their desire for SUVs with four doors and fancier interiors. Until then, sport utility vehicles evolved slowly. No wonder, since they shared many components with pickup trucks that were being redesigned only every 10 years or so. Jeep Cherokee and Wagoneer were first with four-by-four four-doors.

JEEP GRAND CHEROKEE

The Jeep Grand Cherokee offers engine improvements and refined ride and handling in 1996. There's an all-new interior, too, that includes better positioning for switches and overall improvement in ergonomics.

IT'S EASY TO SEE THE ADVANTAGES OF OUR V8 ENGINE WHEN THE HOOD IS RAISED.

HE NEW JEEP GRAND CHEROKEE

At Jeep, we've always had a slightly different nt on driving. Of course, due to some of the most vanced technology ever to hit the road, that slant usually caused by a steep mountain face.

With 220 horsepower and 300 foot-pounds of que, the new Grand Cherokee Limited 4x4 ers the most powerful V8 engine available in its ss.* A power plant made even more impressive the new "on-demand" exclusive Quadra-Trac† ur-wheel drive system that can detect wheel slippage and transfer power to the wheels with the most traction. As for feeling safe, dual front air bags,† side-door guard beams, and four-wheel anti-lock brakes all come standard.

To find out more, visit your Jeep dealer. If you prefer, call 1-800-925-JEEP, or visit our Web site at http://www.jeepunpaved.com You'll discover that its advantages are easy to see—from every angle.

Jeep

THERE'S ONLY ONE

arce of Class: *Automotive News*, 5/95. †Always wear your seat belt. Jeep is a registered trademark of Chrysler Corporation.

RANGE ROVER

The new Range Rover 4.0SE adds improved road manners, an all-new interior, and automatic climate control to its long list of luxury features.

The vehicle continues to provide legendary off-road capabilities. Base price is around $54,700.

The modern SUV market came into its own in 1990 when Ford rolled out its four-door Explorer. That model has been the best-selling SUV ever since, currently claiming about 29% of the sport utility market and ranking fourth among America's top-selling cars and trucks. Four-door configurations dominate the SUV segment and are spreading into the mini-SUV market, too.

MORE NICHES

SUVs makers are stretching both ends of the sport utility market in 1996. At the top end, Ranger Rover will be joined in the $40,000-plus bracket by the LX 450 from Lexus. The model will be based upon the Toyota Land Cruiser an all-terrain vehicle Toyota first imported to the United States in 1958.

At the other end, Toyota jumps into the expanding mini-SUV market this year with its little RAV4. Available with two or four doors, the model features unitized body, full-time four-wheel drive, and a smooth ride. "It's a hybrid," suggests Bryan Bergsteinsson, vice-president of Toyota's pickup and sport utility vehicle team, "but that doesn't mean it doesn't have off-road capabilities."

Another new mini-SUV entry in 1996 is Kia's Sportage (about $15,300), a four door 4x4 with such standard features a power mirrors and alloy wheels. The nimble Sportage has about the same interior room as a compact sedan.

In the middle of the pack, GM has rolled out all-new versions of its compact Blazer and GMC Jimmy SUVs (about $20,000) for '96. The trucks offer a variety of suspension packages,

We thought of everything.

Chapter Seven

With the new Caravan's available driver-side sliding door, you can spend less time running around. A lower step-up height adds to the convenience.

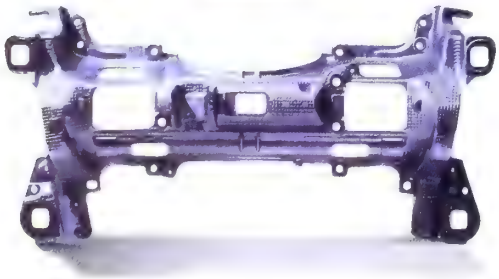
The new Dodge Caravan's wider stance and more horizontal steering co result in an improved ca feel behind the whee

Some features you'll appreciate right away,

The new Caravan offers a personal alarm system that you can turn on or off by remote control.

Our available 166-horsep 3.8L V-6 gives you an extra measure of confi when merging the freeway.

The first time you load the new Caravan, you'll notice it has lots more room. And with more cubby spaces and storage areas, it packs more efficiently, too.



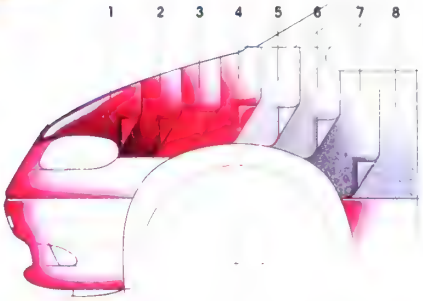
A lightweight aluminum cross member cradles the independent front suspension. At the attach points, tuned rubber isolators are used to give Caravan an even smoother ride.

ES BRAKES

-lock brakes, help you brake steer your way of danger, are ndard, as are ver and front enger airbags.

When you head out on a long trip, you'll appreciate the smoother shifts of our new available interactive cruise control.

A significantly shorter turning circle makes the new Caravan easier to park.



Our highly protective, eight-step finishing process includes a full-body powdered anti-chip primer coat and two separate clear coat applications. All of which means you should be admiring Caravan's brand-new look for years and years.

others will take 100,000 miles.

Our available 3.3L and 3.8L V-6s are so advanced, they can run 100,000 miles before a scheduled tune-up.

ith our 2.4L DOHC -cylinder, 3.0L V-6, 3.3L V-6, and 3.8L V-6 engines, you get more of what Caravan is known for: choices.

The new Dodge Caravan is backed by our Customer One Care™ 3-year or 36,000-mile bumper-to-bumper warranty and 3/36 Roadside Assistance. Plus, there's a 7-year or 100,000-mile outer body rust-through warranty on top of that.*

The New Dodge Caravan

We think you'll agree, we thought of everything. But if you can think of anything else you'd like to know, call 1-800-4-A-DODGE. And we'll send you all kinds of information.

The New Dodge Caravan

Just as original as the original.™

Always wear your seat belt.
See limited warranties & restrictions at dealer. Excludes normal maintenance & wear items.

Paper contains ten percent recycled material

ɔre ergonomic interiors, and 195-
rsepower engines that can propel
ɔ vehicles from zero to 60 m.p.h. in
ɔs than 9 seconds. Ford, meanwhile,
buts a V-8 for its four-wheel-drive
plorer. The bigger engine was made
ssible by last year's redesign of the
plorer's front suspension.

Looking for something a little larger
an SUV? GM is positioning its new
ɹr-door Chevrolet Tahoe (previously
own as the full-size Blazer) and GMC
kon (each vehicle base-priced
ɔund $27,000) as "medium-sized"
Vs. The new models are more than a
ɔt longer than a Ford Explorer but about 18 inches shorter than a Chevrolet Suburban.

HOW TOUGH?

Buyers almost always mention the SUV's image of ruggedness as an important factor in their purchase decision. About 75% of Ford Explorer buyers opt for four-wheel drive, for example. Yet only about 5% of SUV owners ever take their vehicles off-road.

Balancing a macho image with the realities of how SUVs are actually used makes marketing such vehicles tricky. "People want carlike attributes in an SUV," says Toyota's Bergsteinsson. "They want leather interiors, cruise control, sun roofs, CD players, and power windows. And they want to be able to get into and out of it easily."

If that's the case, why not just start with a car and make it look like an SUV? Many manufacturers are reluctant to try. They fear consumers would reject a sport utility vehicle whose performance level doesn't measure up to its image—even though that performance might never be put to the test.

Indeed, some truck makers don't like using the term "carlike" to describe anything about their SUVs. They'll agree their vehicles include many of the amenities of a car, but they want it clear that sport utility vehicles occupy their own exclusive category.

Some manufacturers, many of them Japanese, seem more willing to explore the fuzzy boundary between car and truck. They've been testing demand for hybrid vehicles for several years.

Subaru, for example, rolled out its '96 Outback wagon this year with full-time four-wheel drive, higher ground clearance, and a more powerful engine that its more highway-oriented Legacy sedan. The company calls the vehicle America's first sport-utility wagon.

More exotic car/truck combos are under study. One of them, Hyundai's experimental HCD III, is a little two-seater intended to combine the handling of a true sports car with that of an SUV. The one-of-a-kind vehicle sports a 240 horsepower engine and quick-change suspension system that raises it three inches and adjusts the shock absorbers for off-road travel.

ASTRO VAN

hevrolet's ɪid-sized Astro an has an all ew interior ith updated eats and trim, nd a new instrument panel with controls that are easy to use. Dual airbags are standard.

If you want to end any quibbling about just how macho your SUV is, there's only one vehicle for you: AM General's Hummer (base price: $53,600). Developed as a successor to the military Jeep, this seven-foot-wide monster can climb a 60° grade and wade through two feet of water. Its 16 inches of ground clearance is about twice that of conventional SUVs. This year AM General adds more models, including ones that resemble pickup trucks and station wagons.

VANS KEEP ROLLING

Vans have been around about as long as any other form of truck. Last year they captured nearly 1.7 million sales in the United States, 75% of them minivans.

It wasn't always that way. Vans started out as commercial vehicles. Manufacturers were surprised at the jump in demand by "civilian" buyers when they first bolted in a few rows of seats decades ago.

Vans took another leap in the 1960s when young drivers discovered their use as rolling apartments. Vans didn't become the family vehicle of choice until 1983 when Chrysler Corp. began building its first Plymouth Voyager and Dodge Caravan twins.

These front-wheel drive minivans defined a new class of vehicle. For one thing, front drive meant a lower and more accessible floor. And Chrysler built its minivans around automotive components rather than reconfiguring a truck frame. The result was unlike anything consumers had seen before: a remarkably roomy, comfortable, and quiet van that drove like a car. Parents instantly adopted it as a practical substitute for the venerable station wagon.

It's been a love affair ever since. Minivan sales totaled about 1.2 million units last year, and some experts predict demand could soar by 33% over the next few years.

CHRYSLER'S NEW MINI

When your products command nearly two-thirds of a market, you want to be very careful about "improving" them. That was Chrysler's quandary in deci ing to spend some $2.3 billion overh ing its 12-year-old Voyager and Cara minivans. Both vehicles have been challenged by the popular Windstar minivan that Ford introduced last ye

Chrysler's answers are all-new m els that reflect the Windstar's aerod namic styling, but in a package that manages to look smaller on the outs than it is on the inside. (The new var were recognized with a gold product design award this year from the Industrial Designers Society of Amer and *Business Week*.)

FORD F-SERIES

Ford's redesigned F-Series pickup truck is roomier, with bigger doors, a lower floor, and improved handling. A new dashboard includes larger control knobs and passenger side airbag.

ONLY YOUR MOTHER IS MORE OBSESSED WITH YOUR SAFETY.

Ford Safety Engineers: Karen H. Przybylo, Steve Pingston, Mike Foster

Where would we be without our mothers? They take care of us and protect us. So, we're proud to say, when it comes to safeguarding drivers, at FORD MOTOR COMPANY our maternal instinct becomes very apparent. You can feel it in our TRACTION CONTROL system. And in our ANTI-LOCK BRAKES. It's why DUAL-AIR BAGS are standard in all our cars. And why ROADSIDE ASSISTANCE is available 24 hours a day. We're also developing a Vision Enhancement System — to help drivers when "mother" nature acts up. All this might be considered obsessive. But at Ford Motor Company, we believe such commitments to safety and security will enhance the quality of all our lives. Besides, it's for your own good.*

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QUALITY IS JOB 1.

*Always wear your safety belt.

TOYOTA TACOMA

Toyota's new compact pickup is California-designed and built. The Tacoma offers more powerful engine options, tighter steering, revised front suspension, redesigned instrument panel, and an all-new body.

Chrysler's new minis are roomier with up to 11% more space for people and 27% more for cargo. Outside, they're considerably more rounded than their predecessors. Window area is 30% larger and the vehicles have a lower "beltline"—the bottom edge of the side windows—for a sleeker and sportier look. The turning radius is about three feet tighter. And both lines offer a new, 16-valve four-cylinder engine.

More convenience features have been added, too. One of the most obvious is an optional, driver-side rear sliding door to complement the one on the passenger side. Already-low door sills are another 1.4 inches lower. The rear bench seats now come equipped with small rollers to make removal easier. And an unusual cup holder design for front passengers can grab everything from a juice box to a coffee mug.

MORE REFINEMENTS

Unlike SUV makers, minivan producers are eager to make their vehicles perform more like cars. That means more powerful engines, tighter and more responsive suspensions, and an ever-growing array of new convenience features.

Doors are a good example. Chevrolet introduced a remote-controlled power option for the side sliding door of its Lumina Minivan. The system allows grocery-laden drivers open or close the passenger side rear door by pressing a button on their key fobs. Other manufacturers are thinking of adding a similar feature.

Minivan makers also are beginning to offer a sliding door on the driver's side of the vehicle. Don't like sliding doors? Some minivans—Honda's Odyssey and its twin, the Isuzu Oasis, being the latest—offer the same hinged door arrangement you'd find on a four door sedan.

FRESH FACES

It's not everyday that Detroit redesigns its full-size vans. In fact, it only happens every 25 years or so. For 1996, both GM and Ford are offering all-new versions of their big vans.

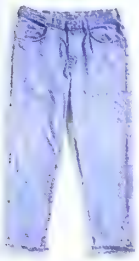
Previously built around an integrated "unibody" configuration, the two lines now feature the "body-on-frame" construction found in big pickup trucks. GM and Ford say their new designs offers more room, better interiors, and improved load capabilities. Chrysler continues to use a lighter and less expensive unitized body construction for its full-size van.

Big vans are used overwhelmingly for such commercial purposes as delivery vans and airport shuttle buses. Many are sold to the van conversion industry.

FANCY PICKUPS

Sport utilities and vans may soak up most of the limelight in the truck mar-

→ IT FITS YOUR PERSONALITY LIKE A FAVORITE PAIR OF JEANS. AND SINCE IT'S A FULL-SIZE, YOU GET A LITTLE MORE ROOM IN THE SEAT. ←



There's nothing like your favorite pair of jeans. And there's nothing like the T100. With a 24-valve, 190-horse V6, it has more power than both the Ford F-150 and the Dodge Ram.* But the T100 Xtracab goes way beyond just rugged power. Its sleek styling. Confident handling. Spacious interior. And an extremely comfortable ride make it the first full-size truck to ever boast such intelligent engineering.

In fact, J.D. Power and Associates ranked it the Best Full-Size Pickup in Initial Quality in 1991.** And they've continued to do so every year since.

Check out the Toyota of Big Trucks, the T100 Xtracab. If it's power and sophistication you're looking for in a truck, we've got one in your size.

TOYOTA T100
I love what you do for me

all 1-800-GO-TOYOTA or visit our Web Site at: http://www.toyota.com for a brochure and location of your nearest dealer. ©1995 Toyota Motor Sales, U.S.A. Buckle Up! Do it for those who love you. Toyota reminds you to Tread Lightly!® on public and private land. *1996 T100 V6 vs. 1996 Ford F-150 and Dodge Ram pickups with standard 6 cyl. engines **J.D. Power and Associates 1991-1995 Light Truck Initial Quality Studies.℠ 1995 study based on a total of 14,059 consumer responses indicating owner-reported problems during the first 90 days of ownership

ket, but pickups are still the sales volume king. Last year Americans purchased nearly 2.9 million of them.

Full-size pickups, which sagged in the 1980s as budget-conscious buyers opted for compact trucks instead, are back. Sales reached almost 1.7 million last year, up roughly 40% over average levels in the 1980s.

Analysts predict more truckers, especially those now driving small pickups, will move to the roomier cockpits and bigger load beds of full-size models. New for '96: Ford's redesigned F-series models, with a sculpted nose somewhat similar to Ford's just-redesigned Explorer SUV.

Demand for small pickups peaked at more than 1.4 million units in 1986. Sales having been running at 1 million-plus for the past several years and aren't expected to rise unless fuel costs jump. Priced well below big pickups, these trucks have long been especially popular among first-time vehicle buyers.

Perhaps the fastest-growing feature in the pickup market is extended cabs that add room for gear or more passengers. This year Ford, Chevrolet, and GMC Truck add a new wrinkle: a third door that improves access to the area behind the front seats. The extra door is an option on the driver side for Chevrolet S10 and GMC Sonoma compact pickups, and on the passenger side for full-size pickups from Ford and the two GM divisions. GM prefers to call the door, which can only be opened from inside after the front door is open, an "easy access system."

GMC SONOMA

The compact-sized GMC Sonoma shows the more rounded lines typical of the newest pickup trucks. A variety of cab and box configurations are available, including a sporty GT version.

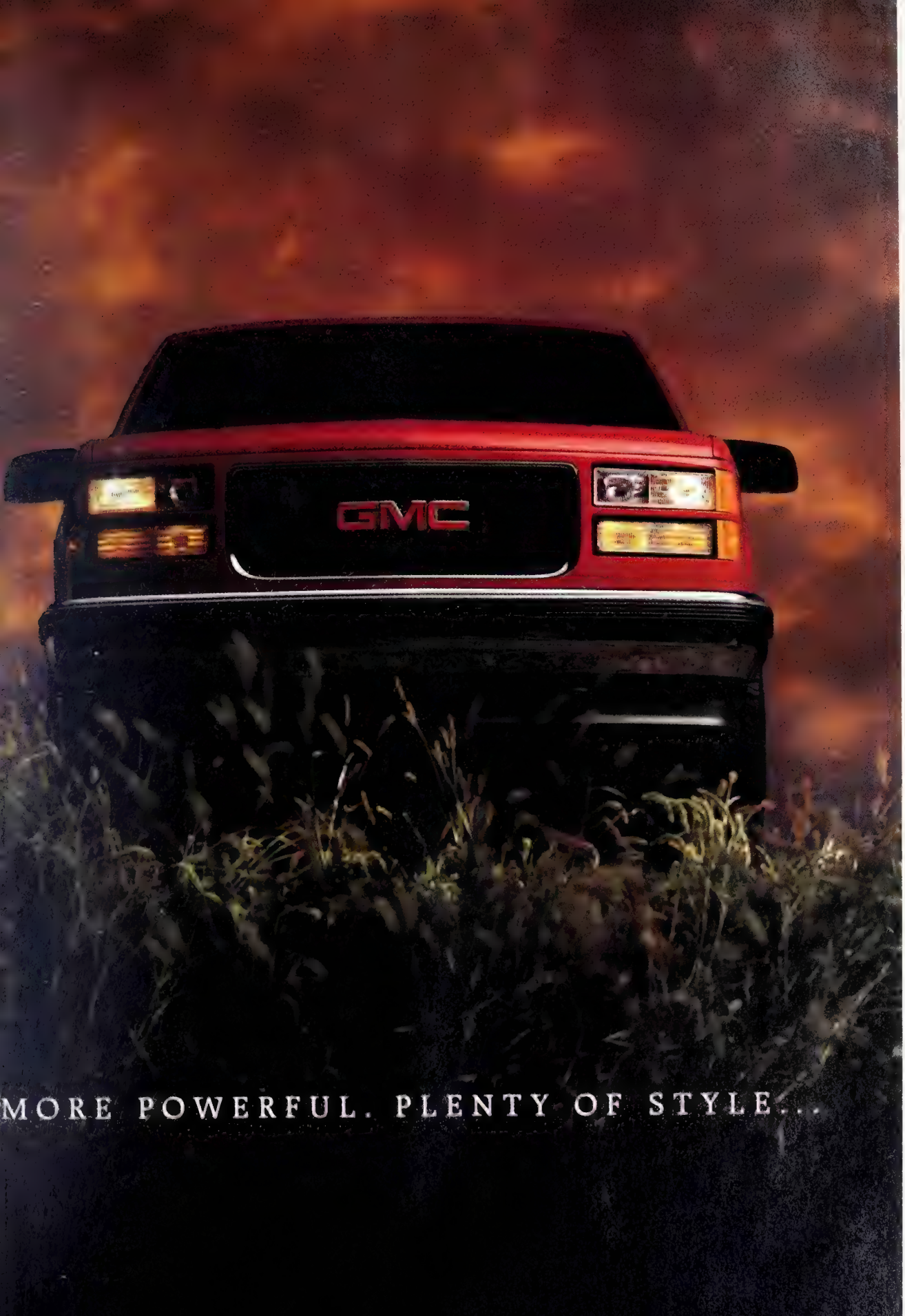
POWER PULLERS

Heavy-duty pickups are intended for owners with big towing jobs in mind. Here's where you'll find some of the most powerful engines on the road.

Consider the Magnum V-10, Dodge's new 10-cylinder gasoline engine. The 488-cubic-inch powerplant churns out 300 horsepower and a stump-pulling 450 pound-feet of torque. Specify it in a heavy-duty Dodge Ram pickup and you're ready to pull 13,000 pounds of payload. The new engine is even more powerful than the big 460 cu. in. and 454 cu. in. V-8s from Ford and Chevrolet, respectively.

GRAPHIC TREATMENT

Racing stripes and other body graphics were popular on cars a decade ago. Today they're hotter than ever on pickups. For some lines, more than 80% come equipped with jazzy graphics on the side.


GMC
MORE POWERFUL. PLENTY OF STYLE...

...BUT WE STILL FELT THE NEED I

After more than 90 years of experience in trucks and only trucks, we've learned to cons
strive for something more. Something breakthrough. A little something on the

Introducing our new, convenient 3rd Door, an industry-wide
from GMC Truck[1]. Available on select Club Coupe GMC Si
the 3rd Door delivers unprecedented utility in a pickup. It pro
easier entry or exit for passengers, as well as improved lo
or unloading for other precious cargo. Of course, our

[1]Excludes other GM products. [2]See dealer for availability. 1995 GM Corp. All rights reserved. GM, GMC, GMC Truck, Sierra, and the GMC Truck
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ITTLE SOMETHING ON THE SIDE.

eakthrough ideas didn't end there. All 1996 GMC Sierra Vortec V8 engines will t from an increase in power and an advanced fuel delivery system. The result in our legendary 5.7 liter V8 is a potent increase of over 27 percent in horsepower, and over 6 percent in torque. So if you feel the need for something more and something on side, call 1-800-GMC-TRUCK and ask about MC Sierra. We're confident you'll be impressed.

GMC TRUCK SIERRA
THE STRENGTH OF EXPERIENCE

Manufacturers use graphic films to add distinction to a pickup or van, change its apparent proportions, or signify a special edition model. Research suggests consumers perceive that graphics give their vehicles more value.

Two recent surveys of truck owners commissioned by 3M Corp., a major supplier of vehicle graphics, confirm the appeal. Nearly nine out of 10 respondents liked the look of special graphics and half said they'd prefer graphics on their next truck. They equated the importance of graphics with such options as a tachometer, fog lights, and leather-wrapped steering wheel.

When it came to listing reasons for buying a particular truck model, respondents to the 3M surveys mentioned graphics as often as they did vehicle quality, seat design, and interior styling. Overall, women liked graphics even more than men did.

BIG TRUCKS, BIG COMFORT

Light-duty trucks aren't the only ones enjoying red-hot sales. Demand for the heavy-duty highway haulers has skyrocketed as well, doubling between 1992 and 1994 to reach 205,000 units. Industry observers say volume could spurt again in 1996, though the market for big trucks has always been volatile and unpredictable.

One reason for the current boom is that the nation's aging fleet of Class 8 trucks needs replacing. Another: There's a shortage of qualified drivers, so smart fleet operators are coddling their crews with better and more comfortable equipment. Today's long-haul tractors offer their drivers vastly improved working conditions than models built just a few years ago. It's not just more amenities. Manufacturers are paying closer attention to ergonomics. Cabs are being designed to accommodate a greater range of driver weights and statures, for example, to reflect the increasing number of female truckers.

The newest result is hitting the highway right now. It's the Ford AeroMax 9500, the industry's first all-new tru in many years. Development of the Class 8 tractor was guided by input some 6,000 truck owners, drivers, a maintainers—including one of the m extensive studies of driver physiolo in 50 years.

Ford spent more than three years developing the new AeroMax model first big tractor designed exclusively highway use. Among its features are top-rated instrument panel, cruise c trol buttons on the steering wheel, a improved aerodynamics that transla

NAVISTAR

Navistar International's new Hi-Rise Pro Sleeper is a Class 8 tractor that combines cockpit and bunk sections into one walk-through room. The aerodynamic layout features a flat floor, desk, TV, and microwave oven.

No One Sells More Trucks Than International. Period.

For 14 consecutive years, International® has sold more heavy and medium-duty trucks ombined than any other North American manufacturer.* And International's dealer network equally unrivaled–with nearly 1,000 locations to serve you.

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*According to figures for class 5, 6, 7 and 8 trucks published by the American Automobile Manufacturers Association (AAMA).

into 4.5% better fuel economy over Ford's old Class 8 tractor.

HOTELS ON WHEELS

Many long-haul truckers have taken their bunks with them for years. But sleeper units have been add-on affairs that were cramped and awkward.

That's no longer true today. The newest cab/sleeper tractors are flat-floor designs with the walk-through convenience of a small motor home. They're also well equipped with everything from closets and spot lighting to built-in microwave ovens and refrigerators with icemakers. To accommodate the increasing use of driving teams for long-haul work, sleepers can be specified with bunk beds.

Price tags on fully-equipped long-haul tractors start around $100,000. Big rig prices have held fairly steady over the last five years, thanks to strong competition and improved production efficiencies.

BIG-TRUCK SAFETY

If other vehicles have airbags, why not big highway rigs? At least one manufacturer, Volvo GM Heavy Truck Corp., is working on an airbag system specifically engineered for Class 8 tractors.

Among the unusual factors to be overcome are the near-vertical angle of the steering column and the chance of multiple impacts due to the large mass of big trucks. But Volvo says its research in Europe suggests airbags for highway rigs, coupled with seatbelt use, could reduce driver injuries by 20%.

Another safety item is radar that detects traffic in a driver's "blind spot."

Eaton Vorad Technologies introduced a radar warning system for big trucks in 1994. Called the EVT-200, it wires up front- and side-mounted vehicle sensors to an electronic controller box and driver display unit.

Delco Electronics is touting its own collision-warning system, dubbed FOREWARN, for both cars and trucks. The microwave system alerts drivers to dangerous situations by sounding an alarm or issuing voice commands through the vehicle's audio system. can indicate the direction from whic an impending collision may occur ar will even tap the brakes momentaril to get the driver's attention.

MACK

Mack, perhaps the best-recognized name in big trucks, is currently celebrating its 95th year. Its new Team Manager truck, a four-door with room for six, is designed for fire/rescue, emergency, and utility operations

BETTER MEDIUMS

The medium-duty truck market—big delivery vans and short-haul rigs—is a roll of its own. Like their big broth mediums are offering buyers improv durability and easier operation.

They're also getting safer. Big rigs use a form of ABS designed for the a brake system they use. Mediums wit air brakes use a similar ABS. Now th medium-duty truck models with hydraulic brakes such as those found on cars and light-duty trucks, are ge ting their own ABS as well.

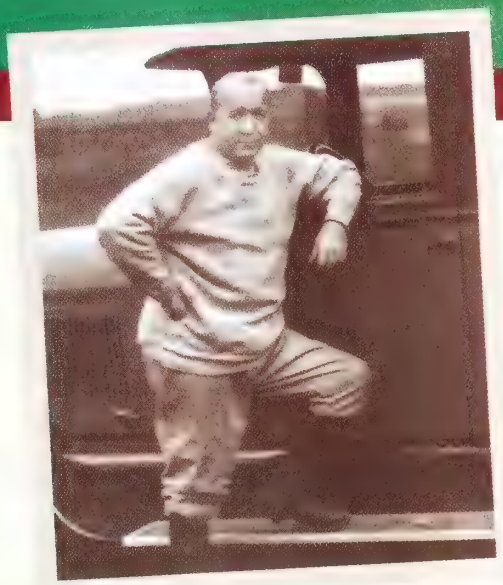
THE BOTTOM LINE

Some analysts were wondering a few years ago if the truck boom would la They're not wondering now. Trucks a redefining the American vehicle mar ket, perhaps forever.

Most industry observers believe trucks will soon account for half of a new vehicle sales. Could they grab a even greater share? The answer is a clear "yes"—if trucks can give consumers everything they had in a car, and more. This year's crop of vans, pickups and sport utility vehicles sug gests they're well on their way to do exactly that.

William Hampton is a Detroit-base journalist who has written about t truck industry for 24 years.

Before there was Newt, there was Knute



Knute Rockne, Coach, Notre Dame, 1918-30. Inducted 1951.

Discover the energy of college football at the new College Football Hall of Fame, where the legends of college football come to life. Action-packed interactive displays put you in the middle of the game, while reflective photo galleries and time-honored artifacts celebrate the history and lore of college football's greatest athletes and coaches.

Explore the possibilities of the new College Football Hall of Fame.

The National Football Foundation is pleased to present the new College Football Hall of Fame in South Bend, Indiana. For corporate sponsorship information please call the Foundation at 1-800-496-1865.

College Football Hall OF Fame

South Bend, Indiana

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A TRADITION IN EXCELLENCE

From birth in a Canton, Ohio automobile showroom, the National Football League has grown to ritual status in family rooms around the nation and even around the world.

The Super Bowl is seen on television from Iceland to China and 19 of the 50 top-rated television programs in U.S. history are championship football games.

Because the NFL is ubiquitous, no other sport has every regular and post season game televised; more than 60 major corporations utilize the NFL in marketing partnerships worth more than 200 million dollars.

Not bad for an Ohio business startup! Because of Ohio's historic status as the incubator of professional football, the legends of the game are enshrined at the Pro Football Hall of Fame in Canton.

Ohio has learned from the example of the enshrinees in the Pro Football Hall of Fame. In fact, Governor George V. Voinovich calls the Hall "a monument to sustained excellence," in a television commercial touting Ohio's status as first in the nation in business expansions and tops in companies that export.

Seventy-five years and two days after the Canton confab which gave birth to the NFL, the Ohio Department of Development hosted the inaugural Pro Football Hall of Fame Enshrinee Golf Classic.

This day in Canton was a perfect illustration of the tie to greatness linking the enshrinees, Hall of Fame and State of Ohio.

The beautiful Glenmoor Country Club, designed by Ohio's golfing icon, Jack Nicklaus, was tested by 19 Hall of Famers, each teamed with five Ohio business leaders. It was reminiscent of the teamwork shown by Canton to bring the Pro Football Hall of Fame to the birthplace city in 1962.

World class companies like Timken, Hoover and Diebold all call Canton home and benefit from the tribute to excellence in their community for all to see. But, the symbol of professional achievement represented by the Pro Football Hall of Fame is felt far beyond Canton. The message of greatness the Hall represents is seen on every NFL broadcast, reaping attention Canton or Ohio could never afford to buy.

The marketing works. Two out of three visitors to the Pro Football Hall of Fame are NOT residents of Ohio. The economic benefit of this traffic to Ohio totals more than $50 million each year.

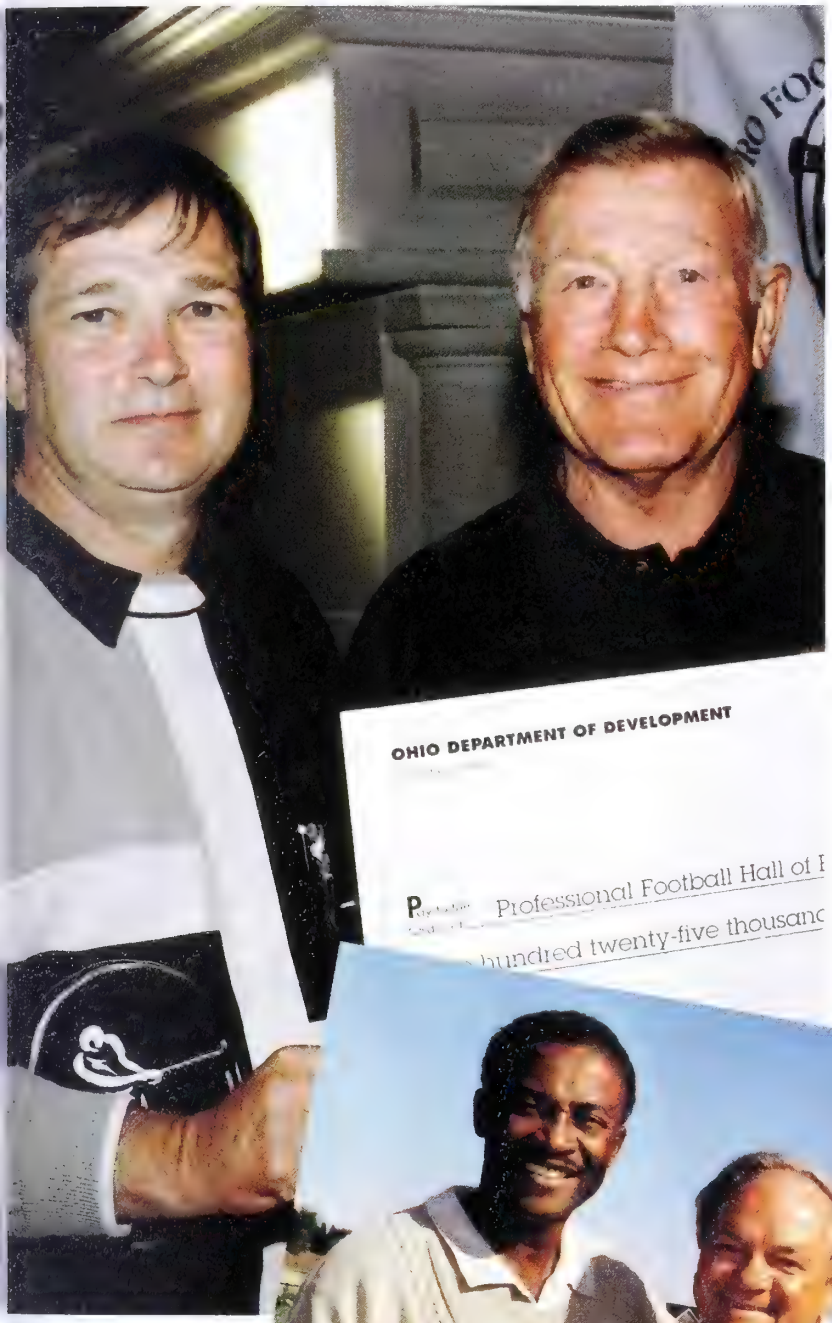
Now the brand new Rock and Roll Hall of Fame in Cleveland and National Inventors Hall of Fame in Akron promise to make northeast Ohio a mecca for students of excellence.

The Pro Football Hall of Fame's ability to showcase the story of greatness personified by each enshrinee's achievements in the arena of competition is greatly enhanced by an $8.9 million expansion project which more than doubles the Hall's overall size.

The $125,000 raised by the first Enshrinee Classic helps pay for the

Moore is More! Lightning Lenny Moore meets Ohio business leaders Jack Ruscilli of Ruscilli Construction and William Kelly of Consolidated Stores for a leisurely round of golf

Quarterbacks and pass rushers are friendly in the Hall. Otto Graham and Deacon Jones tour the Pro Football Hall of Fame's expansion.



o Development Director Don eway presents Pro Football of Fame Director Pete Elliott $125,000 check for Hall ansion.

eland Browns great, Paul Warfield and Columbia of Ohio CEO Ron Tilley ready to golf.

expansion, while creating an opportunity for the Ohio Department of Development to showcase many other business success stories. The event has all the signs of becoming an Ohio tradition.

Special Thanks To:
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Ted Hendricks
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Leroy Kelly
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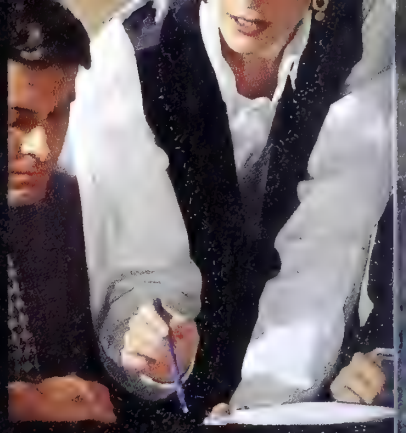

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Our First Annual Buying Guide

COMPUTERS

Hardware, Software, & Much More

INTRODUCTION page 114

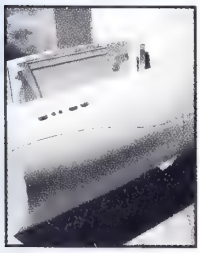
Megahertz, gigabytes, CD-ROMs, sound cards–even if you're not a techno-neophyte, choosing the right computer can turn into a monumental headache. BUSINESS WEEK's buying guide can ease the pain

DESKTOPS page 116

Ready to hit the Info Highway—or to trade in your old clunker? There's a wealth of multimedia PCs (not to mention Apple Macintoshes) to choose from. Start with this scorecard

LAPTOPS page 126

Today's multimedia machines with Pentium power-to-go have all the comforts of a desktop—but often at a price. For those who want maximum portability, subnotebooks may fit the bill



PRINTERS page 132

Laser printers used to be too costly for most computer buyers. Now you can bag one for under $400. And if you want to spend even less, today's inkjets are almost as good

SOFTWARE page 136

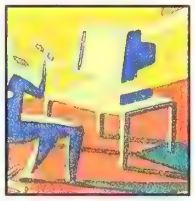
Everyone knows about Win95. But there's a wide world of hot new software out there, from office suites to Web browsers to spy-vs.-spy games

COMMUNICATIONS page 140

You start with a sound card and a modem. Add some nifty new software, and your multimedia PC can do everything a telephone can—and more

STORAGE page 142

Hard up for space on that hard drive? There are plenty of inexpensive ways to warehouse more of your vital data



VIDEO page 144

The latest graphics trick is full-motion video. Upgrading with the new technology can make your PC experience moving, but it will also be pricey

COMPUTER BANKING page 146

The best ways to use at-home banking and the new services you'll soon be able to reach from a keyboard

This special report is available electronically in the Computer Room of Business Week Online on America Online and on the World Wide Web through http://www.mcgraw-hill.com. For reprints of this report, phone (609) 426-5494.

ALL BACKGROUND AND TABLE ILLUSTRATIONS BY TOM DRAPER

Introduction

GETTING THE MOST BYTE FOR THE BUCK

At these prices–and the way memory gets gobbled up–you may as well splurge

This year, a record 9.4 million consumers will snap up new home computers. Many will be first-time buyers. Millions more are current PC owners who are trading up to new models. And untold millions will be buying the disk drives, monitors, sound cards, and other gizmos to turn their trusty home PCs into multimedia Information Superhighway cruisers.

These consumers will prowl stores, flip through mail-order catalogs, scratch their heads, and ask all their friends for advice. "I shopped up and down the market for months," says Tom Miller, a senior vice-president at Foote, Cone & Belding Communications Inc. "I didn't know from RAMs." In the end, he bought a modest mail-order PC, and he and his family are happily playing CD-ROMs and cruising online services.

With so many choices and so many trade-offs, no wonder even experienced buyers get bogged down. Is a 1-gigabyte hard drive enough storage, or should you pay $200 more and get a 1.6? Do you really need an MPEG-standard digital-video card? Should you insist on a PC that's also a fax and answering machine?

HEAVY HARDWARE. The answers to these and many more questions can be found in the following pages. As the computer makers say: There has never been a better time to buy a PC. Of course, they said that last year, and they'll be saying it next year. Still, you can get a lot of byte for your buck this season.

How good are the deals? For about $1,600 to $1,[illegible] the typical home PC based on an Intel Corp. chip com[illegible] with a 75-megahertz Pentium chip, 8 megabytes of memory, a 720-megabyte hard drive, a quad-speed CD-ROM drive and a 14.4-kilobits per second modem. A powerhouse such as Gateway 2000 Inc.'s P5-120 has a 120 Mhz Pentium, 16 megabytes of memory, a 1.6-gigabyte disk, Microsoft's new Windows [illegible] and more than 50 software packages—all for $3,318. Apple Computer Inc. has just cut Macintosh prices by as much as 20%. Computer City sells 1-gigabyte hard-disk drives for $199—less than a third of last year's price.

1

'lett-Packard Co. offers a rebate on $599 Office-printers. And Microsoft). has slashed prices on onsumer software by as h as 45%.

efore you start snapping argains, though, keep one g in mind: Think big. ll-business and home PC ers tend to keep their puters at least five years. purchase for the future. t means spending as h as you can on oodles of nory, plenty of hard-disk age, and slots for new lware add-ons as they e along. "It's just like you be too rich or too thin— can't have too much nory or too much stor-" says Eric Lewis, man- of personal systems at ket researcher Interna-al Data Corp.

hat's especially true given software you'll be seeing. 95 and whizzy multimedia software—games such as Activision Inc.'s *SpyCraft* or *3-D Kitchen*, a program for designing your dream kitchen—will put your hardware to the test. They eat up memory and disk storage. So stock up. If you're upgrading an older PC to use Win95, count on boosting your main memory to at least 8 megabytes—16 megs is even better—and installing at least 720 megabytes of disk-storage capacity. Again, a gigabyte is better.

ON THE GO. Computer makers have come up with a range of home-PC configurations to reach every kind of consumer. For as little as $1,200, you can get a complete system that will let you get started. You want all the bells and whistles? Try Packard Bell Electronics' Pentium 100, listing at $2,898. Great for schoolwork, home finances, Web surfing, and just plain goofing off: You can get TV, FM radio, and a remote control to change audio tracks on the CD player.

Consumers on the go have new models to choose from, too. Some have color displays nearly as big and clear as those on desktops. Some sport CD-ROM drives. With a $500 docking station or a $200 to $300 port replicator that connects your laptop to a standard monitor, keyboard, and office network, you can even forget about buying a desktop at all.

THINK AHEAD

Chances are, you'll keep your machine for five years. So stock up on hard-disk storage, memory, and add-on slots

Whether it's Mac or PC, desktop or laptop, a *MechWarrior 2* game or Quicken to balance your budget, there's stuff to stretch the mind or give it a vacation. Wayne Mitchell, who manages a fund-raising database for San Francisco Day School, just spent $3,000 for a Pentium 100 machine with the multimedia works. Today, he's cruising the Microsoft Network, using E-mail, editing sound files, and noodling with graphic design and animation. Says the 29-year-old Mitchell of his new PC: "It was lovingly put together by technonerds." Here's hoping the same for you. Happy hunting. *Kathy Rebello*

IN SEARCH OF THE PERFECT SYSTEM

A guide to the maze of options, from brawny multimedia to zippy cyber-gear

All of a sudden, your friends are cybernauts. They're cruising the online highways and back roads, listening to Hootie and the Blowfish on their personal information appliance (a.k.a., personal computer) as they pull down the latest comic strip off the Dilbert Web page. Conversations are laced with cool Web sites, interactive movies, and the best config.sys setup for Windows 95. You've even heard of people using a "clicker" (a.k.a., remote control) to run their PCs as well as their TVs.

If you're among the digitally challenged—or if your old PC is just not up to the rigors of multimedia and cybercruising—this is the season to catch up. There's a wealth of PCs to select from out there, and plenty of features—from radio or television reception to multi-CD players to voice mail. What's more, the economics of personal computing are in your favor. The $2,000 or so that you're likely to spend on a home PC this year can buy you a machine that has 50% more disk storage and nearly double the raw computing power of last year's models. Even better, PC makers are throwing in lots of good as much as $1,600 wor software—to get you to

Where do you begin there are so many PC ers and so many config tions available? The place is probably the technical. Do what some lysts call a "usage pro What do you want to with the machine? Are going to cruise the Inter World Wide Web, or are interested in designing own greeting cards? could determine whether put more money into a speed modem or a fast croprocessor. Who are people using the machine you're going to share it the kids, you definitely as much hard-disk storag you can afford—games multimedia edutainm titles soak up disk sp How's the PC going to used over time? For o sional work at home, or you planning to star

COMPAQ PRESARIO 9546
You get 10 CDs full of games, dictionaries, and images

BEST BETS FOR PC BUYERS

RANK	OVERALL RATING	MANUFACTURER AND MODEL/ PRICE	CONFIGURATION	COMMENTS
1	8.77	Dell Computer Dimension XPS P133c $3,249 w/ monitor	Minitower, 133-Mhz Pentium, 16MB of memory, 1GB hard disk, quad-speed CD-ROM	Dell provides strong documentati and preloads Microsoft Office, m ing it easy to launch Excel and W
2	7.70	Gateway 2000 P5-120 $3,318 w/ monitor	Desktop, 120-Mhz Pentium, 16MB of memory, 1.6GB hard disk, quad-speed CD-ROM with a unique three-disk cartridge	Comes with Microsoft's Bob inter and 51 programs on 9 CDs
3	6.72	Gateway 2000 P5-90 $2,168 w/ monitor	Desktop, 90-Mhz Pentium, 16MB of memory, 730MB hard disk, quad-speed CD-ROM	Same as Gateway 2000 P5-120
4	5.90	Compaq Presario 9546 $2,598 w/ monitor	Minitower, 100-Mhz Pentium, 8MB of memory, 1GB hard disk, quad-speed CD-ROM	Awesome sound and color-coordin cables make setup simple
5	5.88	Packard Bell Pentium 100 System $2,898 w/ monitor	Minitower, 100-Mhz Pentium, 16MB of memory, 1.6GB hard disk, quad-speed CD-ROM	Internet-ready and comes with 40 software titles and a remote-cont device
6	5.78	Acer Aspire 2125 $2,598 w/ monitor	Minitower, 100 Mhz Pentium, 16MB of memory, 1GB hard disk, quad-speed CD-ROM	A stylish aerodynamic look, but a tic wrist rest attached to keyboad annoying

PHOTOGRAPHS BY KUDO

DELL DIMENSION XPS P133c
Offers setup cues such as "How can I customize my computer?"

e-based business in a le of years?

this isn't your first e PC, you've already l the most fundamental sion: a PC based on Intel). chips vs. an Apple intosh. If this is your home computer, you'll to weigh the PC against Mac. Mac enthusiasts in- that despite Win95, the le system remains far r to set up and operate. For those in the Mac camp, Apple has created a whole new range of home models that may help them forget the Windows 95 hoopla sweeping the PC market (page 120).

SCREAMERS. Back in the Intel camp, there are three basic technology trends: speedy Pentium processors, the new Microsoft Corp. Windows 95 operating system, and multimedia. You can still buy machines using the older Intel 486 chip or its clones. These machines have been marked down—many to less than $1,000—for good reason: Even the fastest 486 will have trouble keeping up with the demands of the new software.

But put the Pentium and CD-ROM technology together, and you get a screamer of a system, with intense data-moving power, full-motion video, and the hi-fi wherewithal to produce 3-D audio. These Pentium-powered multimedia systems can take phone messages for you while simultaneously scanning the stock market, and at night they can entertain you and your kids with games and slick edutainment titles.

The best multimedia PCs use Intel's high-end Pentium microprocessors (operating at 100 to 133 megahertz). At a minimum, they have 1-gigabyte hard drives. That's enough disk space to handle 1 billion characters, the equivalent of storing 1,000 medium-size novels. Top-flight multimedia systems also feature quad- or six-speed CD-ROM drives that run video more smoothly, a stereo sound card, high-fidelity speakers, and a high-resolution screen powered by special graphics chips.

You can use the multimedia systems for word processing or spreadsheet applications, of course, but these systems are built to entertain. Take, for example, Packard Bell Electronics Inc.'s Pentium 100 home machine. The system

RANK	OVERALL RATING	MANUFACTURER AND MODEL/ PRICE	CONFIGURATION	COMMENTS
7	5.71	Hewlett-Packard Pavilion $2,600 w/ monitor	Minitower, 90-Mhz Pentium, 16MB of memory, 1.2GB hard disk, quad-speed CD-ROM	A stylish design and kid-mode security feature to protect important files
8	5.67	IBM Aptiva $2,649 w/ monitor	Desktop, 100-Mhz Pentium, 8MB of memory, 1GB hard disk, quad-speed CD-ROM	A small-footprint desktop unit with speakers that produce good sound
9	5.44	Compaq Presario 7170 $1,998 w/ monitor	Desktop, 90-Mhz Pentium, 8MB of memory, 840MB hard disk, quad-speed CD-ROM	When you boot up you go into a Presario Plaza, which has tutorials and an area for kids
10	5.38	Digital Equipment Starion 910 $2,148 w/ monitor	Minitower, 75-Mhz Pentium, 8MB of memory, 850MB hard disk, quad-speed CD-ROM	Strong documentation, and system ports are labeled with symbols that make attaching peripherals easy
10	5.38	NEC Technologies Ready 9022 $2,699 w/ monitor	Minitower, 100-Mhz Pentium, 8MB of memory, 1GB hard disk, quad-speed CD-ROM	A handheld remote controls audio and telephone functions. The system ships with Microsoft's Bob interface and over 20 preloaded software packages

DATA: NATIONAL SOFTWARE TESTING LABORATORIES, A DIVISION OF McGRAW-HILL COS.

Otis Carrier Pratt & Whitney Sikorsk

The most effective global management style is:

centralized, conservative and cautious

locally empowered, entrepreneurial and intrepid

* stuck? see clue at left.

To be a global success, you'd better be close to customers and trends in your local markets. And you'd better be there first.

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Be there first.

nilton Standard UT Automotive

United Technologies

costs $2,898—about what other high-end home machines are priced at. For $100 extra, you can get an optional kit that gives you built-in TV and an FM radio. And you can use Packard Bell's remote-control clicker to surf channels or change music tracks on the computer's CD player.

In a test of 15 Intel-based multimedia systems by National Software Testing Laboratories (NSTL), owned by BUSINESS WEEK's parent The McGraw-Hill Companies, NSTL ran performance benchmarks and examined how easy the systems are to set up and use. Then, the test scores were combined to come up with an overall rating for each machine. The performance results and price points vary because the systems have 75-, 90-, 100-, 120-, and 133-Mhz versions of the Pentium, and come with different memory and hard-disk configurations. To be included, the systems had to have at least a 75-Mhz Pentium processor, 8 megabytes of main memory, a 500-megabyte hard drive, a quad-speed CD-ROM, a 15-inch monitor, and an external speaker system. Even budget-conscious consumers should start with that base configuration.

Today's home PCs are easier to set up and use than those on the market a couple of years ago. Most PC makers now supply poster-size maps that illustrate how to plug in all the system components. Some, such as Acer America, Compaq, Packard Bell, and Hewlett-Packard, provide color-coded cables for the mouse, keyboards, and other components that plug into ports in the rear of the systems.

MEMORY-BUILDING. After plugging in the monitor, speakers, keyboards, and the mouse, it's time to fire up the system for the first time. Windows 95, which is much easier to use than earlier versions of the Microsoft graphics "environment," is a full operating system that comes preinstalled on most of the systems. You can run Win95 on a PC with 8 megabytes of main memory, and that level of memory is standard on systems sold by many suppliers. But if you can spring for the additional $250 it's likely to cos pays to upgrade to 16 m bytes to get the most o Windows 95.

There are other me options to look for. C memory speeds up the tem's performance dra cally. Look for at least kilobytes of cache me especially if you are pla to run memory-hungry base programs. For the mum video performan to display high-resolu graphics or run digitized clips—buy a system w megabytes of video me Many systems come wi megabyte, but with thos imations or film clips appear jerky or less cri

While Win95 is a big forward in ease of us may not be enough for

SHINY—AND AFFORDABLE—NEW APPLES

Shortages. Plunging earnings. The Windows 95 advertising tsunami. Life has been tough lately for Apple Computer Inc. But for the few, the brave—the 10% of computer users who, like me, are still devoted to the Macintosh—things aren't nearly so bleak. In fact, there's lots to cheer about. You can get the vaunted Mac design harmony in powerful, speedy machines and the best performance bargains in years.

You want to talk specs? You want to talk price? Thanks to an across-the-board price chop in mid-October, consumers can pick up a very competitive 5200 Performa system for about $1,900. This sleek desktop number includes a PowerPC chip that is equivalent in speed to the Pentium 90, an 800-megabyte hard drive, a 14.4-kilobit-per-second modem, and a bucketload of software. There are packages for education, "home productivity" (word processing and financial planning), online cruising, and Internet access.

CLICK, CLICK. The Performa line provides the "complete solution" approach—an everyperson's machine, with everything you need to get started in a single box. But Apple also has a full menu of à la carte offerings.

There is a wide selection of high-powered Macintoshes that can be configured for your specific needs. A graphic artist working from home, for example, might order additional memory and an extra-large monitor.

MACINTOSH PERFORMA 623

Everything you ne started in a single

On the other Apple's lineup, h you may want t clear of the entr Performas, the " digit" lines such 630. These mach based on the old la Inc. 68000 ser croprocessor. Alt they're attractiv priced—several sell for less than these are machir have no future. coming software Apple and indep software develop require systems speedier Powerp

When it comes ing the computer a part of yo the Mac "out-of-box" experien gives Apple an edge over Inte PC rivals. The computer's inte hardware and software design the setup time. And after a de

IBM APTIVA
Includes software that responds to voice-activated commands

ienced PC owners. So, PC makers help you ıd the harder parts of 5 with easy-to-use pro- s that simplify Windows ypass the software. ı you start up Dell Computer Corp.'s Dimension P100T and XPS P133c, the machine gives you helpful setup cues, such as "How can I customize my computer?" Hewlett-Packard's Pavilion, meanwhile, has a Personal Page that lets you organize and fire up your software programs without the Windows 95 interface. HP's Personal Page consists of eight cartoon-like characters representing different categories of software, such as a wizard to represent reference works. Packard Bell provides a graphical "front end," called Navigator, that organizes software in a virtual living room and lets you click on images in the room. Click on the stereo system on a shelf, and the PC plays an audio CD.

SUBS AND SOUNDS. One of the best things about buying a multimedia system is all the preinstalled software and CDs you get. System manufacturers make it worth your while by bundling CD-ROMs with titles ranging from the Mayo Clinic Family Health Book to Silent Steel, an interactive submarine game that uses special video-compression technology to

ation among makers of Mac t's the same experience for es you open thereafter—to ıre, printers, and other ac- On a PC, adding a graphics ıding a complex application eal chore. On a Mac, clicking :aller" icon usually does the ısh. Likewise, because Apple Web browser through its line service, a Mac buyer often tedious and difficult onfiguration that PC users ›rm to get on the Internet. ıf clicks, and you're there. ır's home Macs are adept ı machines. All come with ives, and the 5200, 5300, and ırma series feature a virtual- : built-in microphone and a software program called e. Together, they turn the into a speakerphone and an- achine. If you're a bit more us, the $99 QuickCam from can be hooked up to all this :o create cheap and simple desktop videoconferencing. Similar options can be added to a PC clone—but not so easily. "The Mac OS is still the best," at bringing these various functions to consumers in a straightforward, elegant way, says Ed Correia, director of retail sales at Computer Attic Supercenter in Redwood City, Calif.

Apple is focusing its home-PC push on two market segments: education and work-at-home. With more than 60% of the K-12 market, Macs remain the educational platform of choice. "I see people wanting to duplicate the computers their children have in school," says Apple watcher Jack Karp of Affinity Research Corp. To make that easier, Performas come with such popular packages as Kid Works 2 and Thinkin' Things as well as a CD-ROM that lets kids test-drive and then order other titles. Parents who want to bone up on their favorite pastimes can pick up CD-ROM study aids such as Microsoft's multimedia Wine Guide.

The standard home Macintosh is also ready to go to work. Every Performa comes equipped with Claris Works—a collection of programs that includes a spreadsheet and database—and the popular Quicken home-finance software. And for work or play, most of the PowerPC lines can accept add-on cards that allow you to bring live television to the computer screen for about $250. They'll also take a $279 MPEG card that will enable full-screen video from CD-ROMs, a feature that is popping up in certain educational and entertainment software.

SSLES The Mac's easy setup ves it an edge over PC rivals. 's just as simple to add rs and other accessories

CHECK THE ADS. Shopping for software for your new Mac can be a little disconcerting. Retailers only set aside a tiny amount of shelf space for Mac software, while Windows titles are ubiquitous. Although the majority of best-selling software is available in both Mac and PC formats, it may not seem so in stores. That's because 30% of Mac software is sold through mail order, explains Pieter Hartsook, editor of *The Hartsook Letter*.

Apple is vowing to change that this Christmas season with lots more in-store promotions. Meanwhile, you can plug into the mail-order channel by picking up any Mac magazine and cruising the ads. While you're at it, consider treating yourself to a game. The Mac's reputation as a good game platform is improving, and most of the best-sellers such as Doom, Myst, and Rebel Assault shine on the Apple system. Given that one of Apple's biggest woes is keeping up with demand, it's clear that the Mac is still tops in the home PC game. *Joan Hamilton*

offer near-movie-like quality. The Compaq Experience CD-ROM suite, which Compaq bundles with the Presario 9546, includes 10 CDs of dictionaries, games, and an image catalog from *Life* magazine.

Gateway 2000's P5-120 matches strong performance with big sound. The desktop system comes with two Altec Lansing multimedia speakers, but it also has a separate bass subwoofer that's about the size of a cinder block. Altec Lansing has become the speaker maker of choice. But many multimedia system manufacturers provide their own speakers. NSTL thought the Compaq brand speakers provided high-quality sound on the Presario Model 9546.

WEB WORK. The multimedia systems tested have at least quad-speed CD-ROMs, which are supplanting dual-speed CD-ROMs because they move data twice as quickly (approximately 600 kilobits per second vs. 300 kilobits per second). While most multimedia titles don't take advantage of drives that run faster than dual-speed yet, the faster throughput of the quad- and six-speed drives kicks in when you are loading large files (such as images) or loading a software application from CD-ROM.

Microphones are another common accessory on these high-end multimedia systems, and they can be used for voice-activated commands that control Windows. For instance, IBM's Aptiva has VoiceType Control for Windows that lets you write checks with Quicken's personal-finance software by simply speaking the words "Write checks." Most customers find it easier to navigate by mouse, but the voice option is there if you need it.

If multimedia isn't your thing but the Internet is, you may want to pony up the money for a top-end Pentium machine. Get a system equipped with a 133-Mhz or 120-Mhz Pentium processor, lots of disk storage, and 16 megabytes of main memory. The most critical component, of course, will be the modem that connects your machine to the phone system. Look for a system that comes with an internal 28.8 kilobit-per-second modem. It will cost more, but it will reduce phone charges and save you the annoyance of waiting for graphics-rich Web pages to slowly materialize on your screen.

If the wired world isn't your thing, you may still want a high-octane machine to do some heavy number-crunching on next year's budget for your business or the architectural drawing for a new addition on your house. Two of the systems tested—Dell's Dimension P133c and Gateway's P5-120—performed the best in NSTL's overall ratings (see page 116).

GOOD BUYS. Just as most of us can get by without a Ferrari, most home-PC users can do very nicely with a reasonably priced, mid-market machine. Digital Equipment Corp.'s Starion 910 ($2,[illegible]) has a 75-Mhz Pentium and is easy to set up. The system is good enough for home use with 16-bit audio, a 28.8-kilobits-per-second modem, a quad-speed CD-ROM, and external JBL speakers that do a nice job playing back audio CDs while you do your homework. Compaq's Presario 7170, priced just under $2,000, is a good buy for a 90-Mhz Pentium computer. The machine comes with software titles that Compaq claims are worth $1,[illegible]. Meanwhile, Gateway 2000's P5-90 ($2,168) is a 90-Mhz Pentium that has 16 megabytes of memory, a [illegible] megabyte hard disk, and comes with 51 programs and nine CDs.

Whether you're buying a leading-edge system or a cheaper multimedia box, the last thing to look for is the length of the warranty. They are, by and large, highly reliable machines, but it's good to have insurance. A three-year warranty is now standard for most major computer makers. They also throw in lifetime technical support. While PC makers continue to improve the quality and clarity of their technical manuals, it's nice to know that there is a human at the end of an 800 line—someone who will be there when you confess that you still don't know your config.sys from your win.ini. *Ira Sager with John McDonough*

GATEWAY 2000 P5-120
Powerful sound system includes two speakers and a subwoofer

POWER PLAY Even if the Internet isn't your thing, you may want a high-octane machine to run spreadsheets or do graphics work

PACKARD BELL PENTIUM 100 MULTIMEDIA SYSTEM
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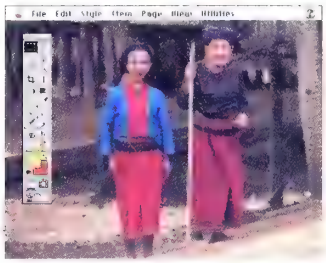

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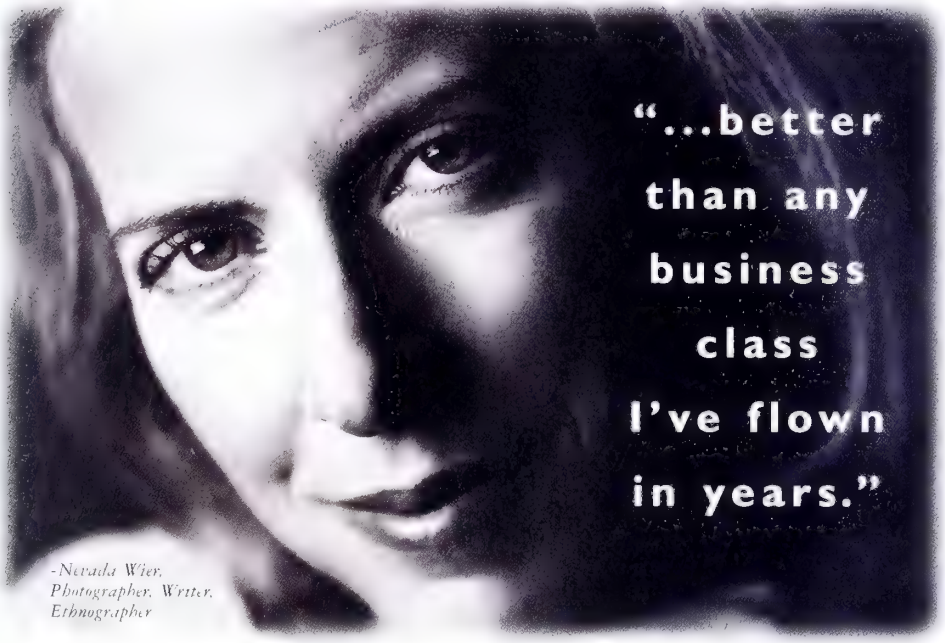

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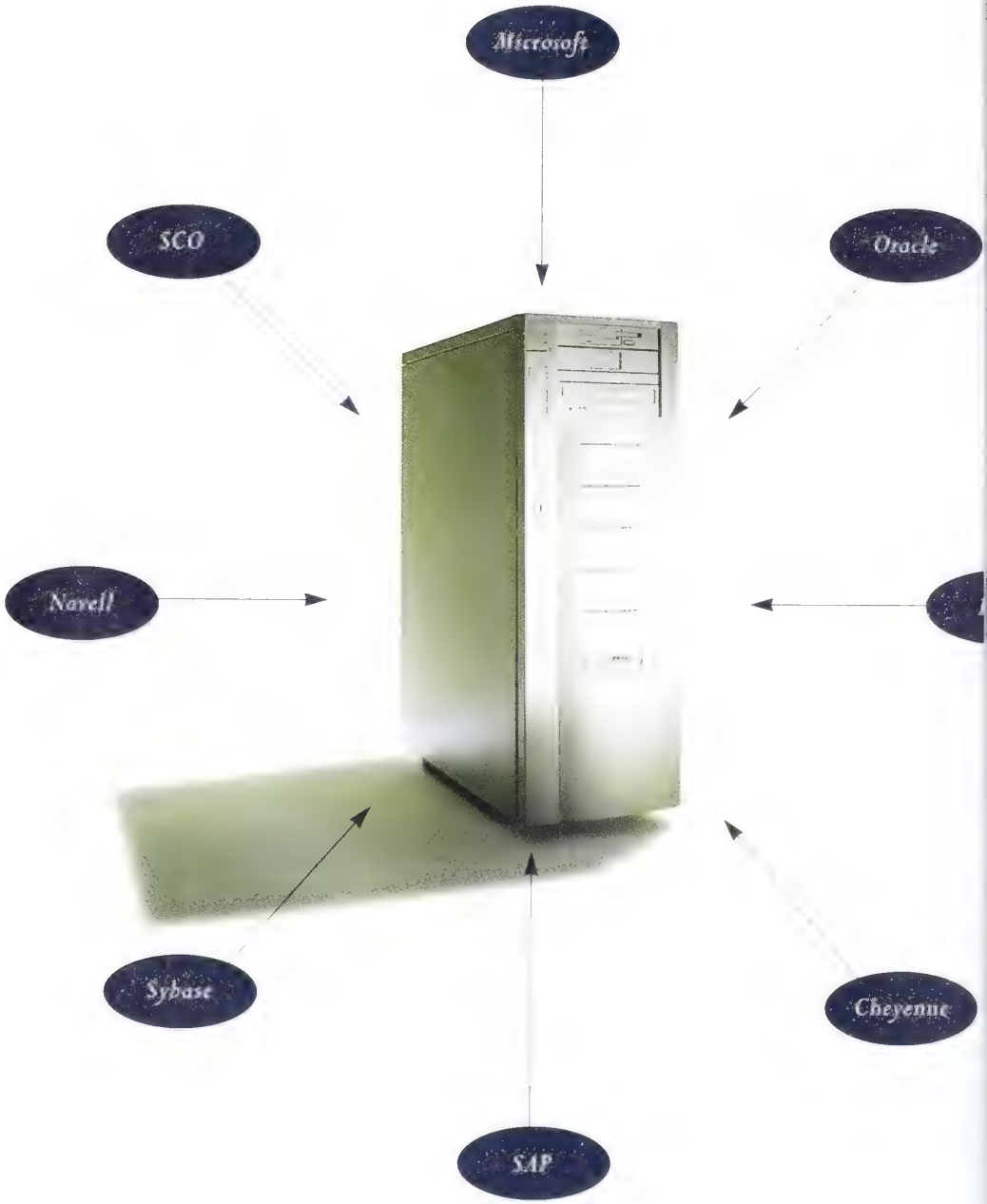

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COMPAQ

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DELL LATITUDE XPi
Weighing 6.2 pounds, it cos
$2,999. Fully loaded: $4,000

LAPTOPS: NOW, YOU DON'T HAVE TO SETTLE

Today's sleek new multimedia models have enough power to rival desktops

If you travel with a computer, you probably resigned yourself long ago to the fact that you can't really take it with you. While laptops are a lot better than nothing, they have generally been underpowered, underfeatured machines that left you longing for the big brute on your desktop.

No more. Bright color displays have grown as big as 12.1 in.—90% of the display area of a 14-in. desktop monitor. Stereo sound is standard on high-end machines, and CD-ROM drives are becoming common. Disk capacity, long a headache on portable gear, is often 800 megabytes to 1.2 gigabytes.

MIX AND MATCH. But the big news this fall is the rapid growth of Pentium power-to-go. Until Intel Corp. began shipping a low-voltage version of its speedy processor earlier this year, heat and battery-life concerns made it impractical to use the chip in laptops. Now, manufacturers from Acer to Zenith are busily overhauling their laptop lines to incorporate Pentiums of 75 and 90 megahertz. And an even faster generation of portables will appear around yearend, when Intel brings a 120-Mhz version to market.

The other development that's revolutionizing laptops this year is modular design. In the early days, it was physically impossible to cram all the features anyone might want into a box 8 in. by 12 in. by 2 in. You still can't fit everything at once, but many high-end machines now you the option of mixing matching components needed. Off to do a multi dia presentation? Out the floppy drive, to be placed by a CD-ROM. Nee tra power for an interc nental plane trip? Stow CD-ROM and pop in a se battery.

Laptops divide rou into four classes: (1) un promising machines for t who need the very bes display quality and multi dia features—and don't m paying the cost in dollar weight; (2) midrange u that sacrifice bells and w tles but still provide ex lent performance at a lo cost; (3) entry-level mach with smaller displays slower processors that p vide adequate performanc bargain prices; and (4) s notebooks, designed v portability as their param feature (page 128).

DOCKING. Feature for feat laptops cost far more t desktop machines. Desk units have crashed thro the $1,000 barrier, but a able laptop will set you b a minimum of $2,000. W $3,500 will buy all the de top most users would e dream of, deluxe portab top out around $7,500. If divide computing time tween the office and the r these prices may not be daunting: Nearly all of tod laptops offer some desk docking option. Port repli tors, generally costing $ to $300, allow you to con your laptop to a stand monitor, keyboard, a mouse, and to hook into y office network without arranging cables. More co plex docking stations, usu costing $500 to $800, sup the CD-ROM and sound ca bility many portables lack.

Current king of the la

mountain is IBM ThinkPad D. Its 12.1-in. -matrix display biggest in the ess, but other ors should un- 12-in. models this fall. The comes with ad- d audio and features—in- g the ability to ay VHS-quality

THINKPAD
ig-screen 760CD
big price: $7,500

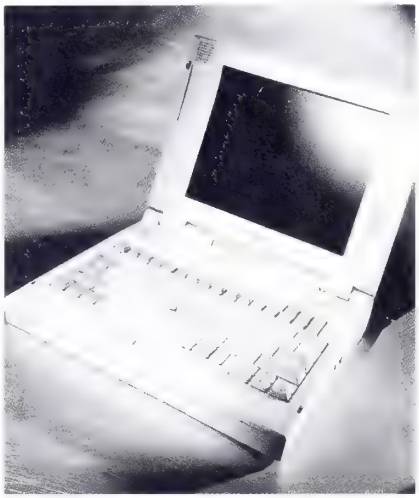
off a CD-ROM or a -sure to make it the ig of Hollywood and on Avenue executives. ThinkPad is also typi- the new modular breed. g its keyboard reveals bays. One is filled with um-ion battery, the cur- ong-life champ. Another a 1.2-gigabyte disk . The third normally ns a quad-speed CD-ROM 3.5-in. floppy, but it can a second hard disk or tra battery.

ThinkPad weighs a 7.4 pounds, typical of nedia units, and it car- n equally hefty price just over $1,000 per l. If you don't have a wood mogul's budget, are less generously en- l but still highly capable nedia machines. For ex- , Compaq Computer s new LTE 5000 series es a modular design r to the ThinkPad's. Its -the-line model boasts 3-in. active-matrix dis- or $5,800. Other multi- laptops in the $5,500 include the NEC Tech- ies Versa 4050H, the a Satellite 400, and the esearch Ascentia 950N. me with smaller, 10.4-in. ys.

OSTS. If you need raw sing power but can get thout a built-in CD-ROM erhaps without stereo , you can lower the cost ntially. That big, bright y is by far the most part of a laptop. You a chunk of change by g for a smaller display or by going for dual-scan passive matrix instead of active matrix color. Passive-matrix screens aren't as bright, don't display graphics quite as quickly, and tend to fade abruptly when viewed from an angle. But they can cost $1,000 less for equal sizes. For example, an NEC Versa 4000 with a 10.4-in. dual-scan display costs $3,499, while an otherwise-identical unit with a smaller 10.1-in. active matrix display fetches $4,199. As a bonus, passive-matrix units often give slightly better battery life.

These midrange machines are ideal for mobile professionals who give their laptops a good workout but don't do multimedia presentations. And giving up CD-ROM drives and the biggest displays can save you a pound or more in weight. Pentium processors and big hard drives, usually in the 800-megabyte class, offer enough firepower to allow you to use a midrange laptop as your only computer, with a docking arrangement adding multimedia features and network connections when needed.

One solid midrange machine is the Dell Computer Corp. Latitude XPi, featuring a 10.4-in. display, 75-Mhz or 90-Mhz Pentiums, and hard drives of 340 megabytes to 1.2 gigabytes, all in a 6.2-pound package. Prices start at $2,999, but a fully loaded machine will set you back $4,000. The new Texas Instruments Inc. Extensa 550 takes a novel approach to battery life. The base model, which ranges from $2,499 for a bare-bones model to $3,599 for an active-matrix unit with a double-speed CD-ROM, comes with a relatively inexpensive and shorter-lived nickel-metal hydride battery. But you can double battery life by swapping the internal floppy for an optional lithium battery.



COMPAQ LTE 5000
This multimedia unit is priced at $5,800

MEMORY. Even today's "value-line" laptops, which feature 486 processors running at 50 to 100 Mhz, are machines that road warriors would have drooled over just a year ago. For example, you can get a new Compaq Contura 420C with a 10.4-in. passive-matrix display for around $2,500. The NEC Versa 2000, with 9.5-in. active matrix or 10.4-in. passive is about the same price as is the Dell Latitude LX.

Ready to buy? There are a few things to watch out for when choosing a laptop. Some low-end machines are sold with just 4 megabytes of memory to keep their price below $2,000, but you won't be happy running any version of Windows with less than 8 megabytes. Also, watch out for small hard drives: Upgrades can be expensive, especially in cheaper machines without user-replaceable drives.

Above all, try before you buy. The look and feel of desktop machines don't vary much from brand to brand, but laptops are idiosyncratic. You may love the keyboard on a Dell and hate a Toshiba. Finding a substitute for a mouse is a chronic laptop problem, and the solutions include trackballs, touch-sensitive pads below the keyboard, and miniature joysticks in the middle of the keyboard. It's a rare user who feels equally comfortable with all of these. Try several.

Luckily, your choices are far wider than ever before. Spend a little time shopping, and you're just about sure to find something that fits your needs, your tastes, and your budget. *Steve Wildstrom*

LAPTOP BUYING TIPS

- Active matrix displays are brighter and much better for presentations, but you can save about $1,000 by choosing a passive-matrix screen.
- If you'll spend a lot of time working away from an electrical plug, go for lithium-ion batteries. Nickel-metal hydride is cheaper but gives less time per charge.
- You'll want at least 8 megabytes of RAM, but 16 MB works a lot better. Go for at least a 540-MB hard drive, since laptop hard drives can be difficult to upgrade.

A FLEET OF HIGH-POWERED SUBS

Some computer-toting travelers want to have it all. Others just want to have it light. If you're willing to sacrifice the bells and whistles in the interest of maximum portability, a subnotebook may be for you.

But be forewarned: The compromises required to squeeze a computer into a package as small as 8 in. by 10 in. and weighing as little as 5 pounds are considerable. Subnotebooks don't have room for an internal floppy disk drive, let alone a CD-ROM. Displays are smaller than on full-size notebooks, maxing out at 10.4 in. Hard drives are smaller, and memory capacity less. And keyboards are cramped, often with keys smaller than standard size, and the functions of the 101 keys of a standard keyboard are usually squeezed onto just 82.

SMALL PACKAGE
But the Gateway 2000 has a 10.4-in. screen

HONORARY A. One thing you no longer need give up when you downsize is pure computing power. The new Toshiba Corp. 610CT is the first subnotebook to feature a 90-megahertz Pentium processor. The unit, which weighs just 4.8 pounds without its battery charger and external floppy drive, includes a 9.5-in. active-matrix display, a 720-megabyte hard drive, and stereo sound. The unit arrived too late to be put through National Software Testing Laboratories' entire test suite, but its processor, video, and disk performance was so superior to its 486-based rivals that NSTL testers say it almost certainly would have recorded the top overall score. These features don't come cheap, however: The new Portégé is expected to retail for around $4,650.

Other Pentium models will arrive soon, but for now your other choices use 486s. The top scorer in the NSTL test was Digital Equipment Corp.'s elegant HiNote Ultra, which weighs just 5.6 pounds with its charger and is an incredible 1.2 in. thin. It features a 9.5-in. active-matrix screen and a 528-megabyte hard drive, and its optional external floppy drive is housed in a $299 thin, wedge-shaped unit that fits under the HiNote—providing a better typing angle. The street price is around $4,500.

Two very different machines tied for the next place in the NSTL rankings. The Gateway 2000 Liberty's 10.4-in. passive-matrix screen is the biggest of any of the machines in this class, but the overall package measures a compact 8 in. by 10 in. by 1.6 in. The base Liberty can be had for as little as $2,999 with 8 megabytes of RAM and a 340-megabyte hard drive. The unit that was tested by NSTL, with a hefty 24 megabytes of RAM and a 729-megabyte drive, sells for a relatively modest $4,499.

All these subnotebooks use either a trackball or a keyboard-mounted mini-joystick to control the cursor. But Hewlett-Packard Co.'s thoroughly unconventional OmniBook 600CT offers a miniature mouselike device attached to a plastic wand that pops out of the right side of the case. It takes some getting used to but works quite well. And unlike any other machine, it depends on a hard drive mounted on a credit-card-size PC card. This makes it extremely easy to swap hard drives but limits storage capacity to 260 megabytes. Although the OmniBook scored relatively low on performance tests, the overall score was pulled up by a lithium-ion battery that kept the machine and its 9.5-in. active-matrix display going for nearly six hours. Street price should be around $3,700.

BUTTERFLY. By contrast, poor battery performance hurt the IBM ThinkPad 501C, the only unit equipped with an old-fashioned nickel-cadmium battery (a nickel-metal hydride battery is a $115 option). But the ThinkPad has a striking virtue: a butterfly keyboard that uses a clever arrangement of cams and levers to spread out into a full-size unit when the case is opened. It also manages to fit a 10.4-in. active-matrix display into a unit whose overall size is a bit smaller than the Gateway Liberty. It weighs just 5.1 pounds with charger and an included port-extender unit.

To be sure, none of these machines, except perhaps the Toshiba, can match even the midrange Pentium-powered standard laptops for performance or flexibility. And having to carry an external drive if you have to use a floppy disk can be a real pain. But after you've carried your laptop on a few dashes between airport gates, the small size and light weight can cover a multitude of sins. *Steve Wildstrom*

POPULAR SUBNOTEBOOKS

MODEL	PROCESSOR	OVERALL SCORE
TOSHIBA PORTEGE 610CT	Pentium 90	*
DIGITAL EQUIPMENT HINOTE ULTRA	486DX4–100	8.1
GATEWAY 2000 LIBERTY	486DX4–100	7.6
HEWLETT-PACKARD OMNIBOOK 600CT	486DX4–75	7.6
IBM THINKPAD 710	486DX4–75	6.8

*The Portegé became available too late for complete testing, but its outstanding performance score indicates it would have received the top score overall.

DATA: NSTL, A DIVISION OF THE McGRAW-HILL COMPANIES

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Now everyone in your office can handle any kind of faxing task through one integrated system. Which not only reduces costs, but can make your whole office run more efficiently.

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*Based on CCITT #1 chart, standard mode.

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ıll Jeep® Cherokees are
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e've manufactured Jeep
'or the growing Chinese
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ased ownership in our
istributor Network to 70
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d drive models (Wrangler,
Cherokee, Neon, and
· Voyager) in Australia,
ıd the U.K.

ıtin America, where our Brazilian and Argentinean distributors will be 100 percent owned by Chrysler, we're planning to launch Neon, Stratus, and Caravan before the end of the year. In 1996 Neon will be produced in Venezuela, while Grand Cherokee will be in production in Argentina the following year.

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THE PRICE IS RIGHT FOR PRINTERS

The lasers are affordable, and most new inkjets offer dazzling color

Even as late as two or three years ago, a printer was pretty much an afterthought in the purchase of a home computer system. Unless buyers ran home businesses that required fancy documents or printed presentations, most opted for a cheap, noisy dot-matrix model that could—with a new ribbon—slowly turn out text of just-passable quality.

But today, many stores can't give away dot-matrix machines. That's because prices of laser printers have plummeted to an affordable $400 or less. And less costly inkjet printers have vastly improved. Their black-and-white text now looks as good as that from a laser, and virtually all new inkjet printers can print in vibrant, dazzling colors. National Software Testing Laboratories Inc., a unit of The McGraw-Hill Companies, put several current models through their paces and found that you needn't spend a fortune: Lexmark International Inc.'s Color Jetprinter 1020 yielded great color output for less than $300—thousands less than a high-end color laser.

HOMEWORK. Before you hit the computer stores, however, do a little homework. With few exceptions, printers designed for IBM-compatible machines won't work with Apple computers, and vice versa. But Canon Inc., which sells IBM-compatible printers only, also makes Apple Computer Inc.'s StyleWriter line, and Hewl Packard Co.'s DeskJet p ers for PCs are nearly ide cal to its DeskWriter line Apple. Epson's Stylus C printers are the only with connections for Apples and IBM-compatib

The choice between a ser printer and an in these days comes dow how much you print whether you need color. sers, which print a full p at a time with an electro ic process like that of o copiers, are rugged mach designed to handle thous of black-and-white pag month. In contrast, in printers spray ink onto page one line at a time,

CANON BJC-70
It looks like a compact-disk player. A good bet at $349

ɔly handling hundreds of
s monthly. Among the
ts in this usually $400-
range, today there
t radical differences in
quality or cost of sup-
The best inkjets turn
ıe same crisp, dark text
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an inkjet might.
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or you need a printer
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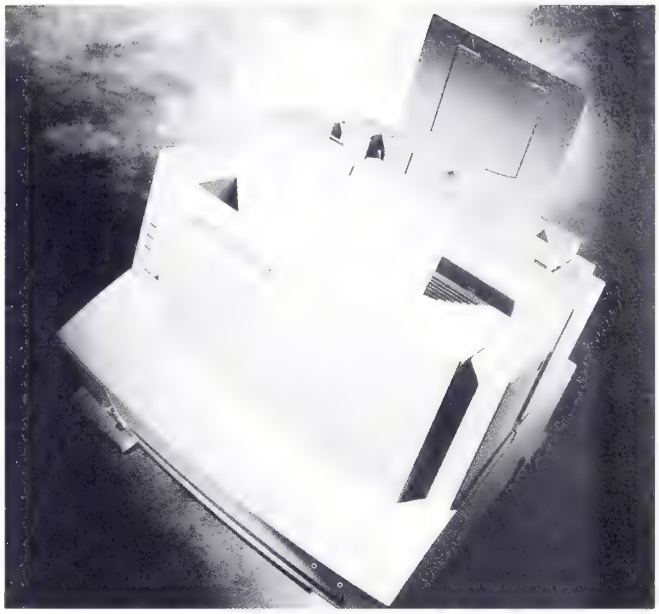
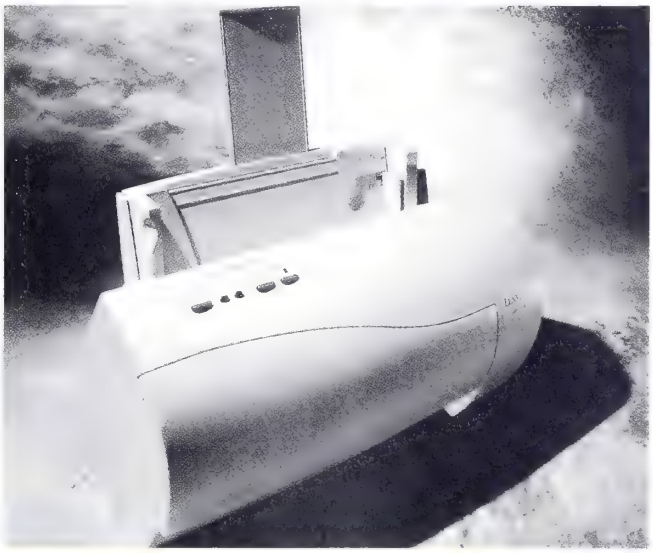
Canon's sleek new BJC-
hich looks more like a
act-disk player than a
r, is a good bet at $349.
ıer is HP's DeskJet 340
99, though if you want
a color cartridge is $30
Both are light enough
ke along on a business
But skip the optional
ries and rechargers, as
nlikely you'll ever haul
he printer in your car
an airplane. Another
saver is the "office-in-a-
which combines an ink-
rinter with a scanner,
nience copier, and fax
ne (page 134). Unfortu-
, only one model, from
ark, can print in color.

KID TEST. Once you've mined your needs, it's to go shopping. These it's better to approach a printer purchase as if vere buying a color TV: at the pictures, and buy ne that looks best to You no longer simply e the printer that puts ost dots per inch on the Now, with new inks and are to smooth the imag- d sharpen the edges, a or drawing from a 300- 0 DPI printer can look od as one from a 720- 0 DPI machine. So it's a task of comparing lark the blacks are and vivid the colors appear.

ıy all this emphasis on printing for the home? word: kids. "Children in color, they see color e computer screen," says Kerker, a marketing ger at Hewlett-Packard. oesn't make sense to if the printer doesn't in color."

If you doubt it, just look at what comes with color printers. Each model in Canon's new consumer line sports a CD-ROM disk called Canon Creative that includes the Crayola Art drawing program, a greeting-card maker from Hallmark Cards Inc., software to create kids' stationery, stickers, and labels—and a program to print needlework patterns on cotton fabric. Other makers bundle software that lets you tackle jobs often handled by commercial printers. HP's $400 DeskJet 660Cse comes with Broderbund Software's Print Shop Deluxe and a pack of assorted fancy papers and card stocks. Epson includes a mail-in coupon good for either EasyPhoto, a program for inserting photos in letters or flyers, or Sierra On-Line Inc.'s Print Artist.





HP LASERJET 5L
This low-end laser can handle card stock. It goes for $479

LEXMARK 1020
Low-priced at $269, but color printing can wind up costing

But the advent of color printing has ushered in some unusual economics that you should recognize before you buy. In effect, the printer business is now a razor-and-blade affair. Printer companies today make their money on ink cartridges and special coated or glossy papers. And the costs can quickly add up—especially for buyers of inexpensive color machines. Generally, the more you pay for the printer, the less the supplies—and each printed page—will cost. For example, Epson's $799 Stylus Pro turns out a typical color page for less than 8¢. The same page printed by its $299 Stylus Color IIs model will cost you 20¢. Neither includes the 12.5¢-per-page cost of the coated paper that Epson recommends for the best results.

One explanation for these cockeyed numbers is that the cheaper printers print black as a combination of the three primary colors—cyan, magen-

RED-HOT COLOR INKJETS

MODEL/PRICE	PAGES PER MINUTE*	PRINT QUALITY COLOR**	PRINT QUALITY BLACK & WHITE
CANON BJC-4100 / $379	0.4	★★½	★★★★
EPSON STYLUS COLOR II / $449	0.7	★★★	★★★★
HEWLETT-PACKARD DESKJET 855C / $549	1.5	★★★½	★★★
HEWLETT-PACKARD DESKJET 660Cse / $399	0.8	★★½	★★★
HEWLETT-PACKARD DESKJET 340 / $299	0.7	★½	★★
LEXMARK COLOR JETPRINTER 1020 / $269	0.4	★★★★	★★
LEXMARK WINWRITER 150c / $349	1.0	★★★★	★★

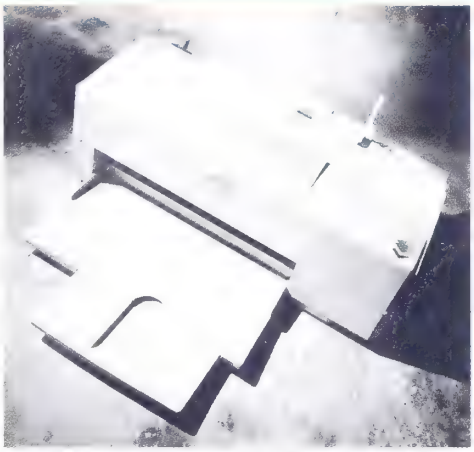
* Weighted average of black and white and color printing at 300 or 360 dots per inch
** Weighted average rating of both print and image quality

DATA NSTL, A DIVISION OF THE McGRAW-HILL COMPANIES

Printers

ta, and yellow—so they consume quantities of expensive color inks. Unfortunately, that kind of black is apt to look a bit muddy compared with the dark, crisp text of a laser. Other printers that use three colors to create so-called "process" or "composite" black include HP's $299 DeskJet 600, Canon's $269 BJC-210, and Lexmark's $269 Jetprinter 1020. When you're only printing black-and-white text, though, each lets you swap in a cheaper black-ink cartridge that lowers the cost to between 4¢ and 5¢ a page.

The next step up are such printers as Canon's $379 BJC-4100, HP's $399 DeskJet 660Cse, Epson's $449 Stylus Color II, and Lexmark's $349 WinWriter 150c. These are slightly cheaper to operate—actually, HP's is much cheaper, around 13¢ per page—and use two cartridges, the three-color one along with pure black. The top-of-the-line HP DeskJet 855C or Canon BJC-610, each about $549, will turn out color at about a dime a page, or plain black text at about 3¢. They're also faster: In tests at NSTL, the HP DeskJet 855C could print nearly four pages of text in a minute, or a page of color graphics in about 90 seconds. That's more than twice as fast as the company's midline 660Cse.



EPSON STYLUS COLOR II
The line has connections for IBMs and Apples

A CAVEAT. If you don't absolutely need color, you should consider a low-end laser printer. Designed for home office use, they generally print four to six pages a minute and cost 2¢ to 3¢ a page to operate. Recently, manufacturers have started straightening out the tortuous path that paper takes through a laser printer. So some can now handle card stock, such as announcement or business cards—and these printers are less likely to iron wrinkles into envelopes. Two good choices are the LaserJet 5L at $47[illegible], Brother Industries Ltd[illegible] 630, a six page-per-minute $399 printer that *Consumer Reports* recently rated Best Buy.

A word of warning: [illegible] retailers now routinely [illegible] in a printer when they [illegible] computer system, but [illegible] ten an inexpensive or [illegible]tinued model. So make [illegible] the printer is capable [illegible]dling all your printing [illegible] or pay $100 extra to up[illegible] to a better one.

Or two. If you have [illegible] than one PC, you may [illegible] to outfit one with a las[illegible] business and everyda[illegible] and one with a color [illegible] for the kids. At today's [illegible]es, you can get both w[illegible] topping $1,000, or [illegible] hundreds less. That's a [illegible] price to pay to keep pe[illegible] the family. *Larry Arms[illegible]*

THE ONE-MAN BAND OF HOME OFFICES

So you're setting up a home office. Whether you plan to launch a business or just want to be more productive in your day job, you're going to need a few basics. Besides the computer, you'll want a printer. A fax would be nice, one of those plain paper ones where the pages don't roll up. Then there's the copier, to save on late-night runs to Kinko's. (Hey, this office is beginning to look like Kinko's.) Oh, and don't forget a spare desk—to hold everything.

Overwhelmed? Then why not do what more and more work-at-homes are doing: save space and cash by buying an office-in-a-box. These are multifunction office machines that print, scan, copy, and fax, and you can pick one up for as little as $500. As you add features, such as PC fax software, a telephone handset, or software to control the whole works from your PC, these multipurpose gadgets get more expensive, but not much more. Better yet, they take up about the same space as a full-size laser printer, so they can sit on a corner of your desk.

A bare-bones unit such as Hewlett-Packard Co.'s OfficeJet gives you a monochrome inkjet printer and a plain paper fax. Together they serve as a convenience copier: Scan a single sheet into the fax, and a copy prints out. It sells for about $599, although HP is offering a $100 rebate through January. For $100 more, HP's OfficeJet LX includes software to scan in graphics or to program in fax numbers from your keyboard, rather than the OfficeJet's tiny keypad and display.

Similar systems are available from such companies as Canon, Brother, and Okidata. Earlier this year, Lex[illegible]mark International Inc. introduced its $699 Medly 4c, the first multifu[illegible]tion machine that can print—but n[illegible] copy—in color. Another new entry [illegible] Xerox Corp.'s Document WorkCen[illegible] 250. Unlike rivals' 200 dot-per-inch scanners, Xerox' 300 DPI version makes copies that come closer to t[illegible] quality of big Xerox office copiers. The $699 machine also includes the company's TextBridge Pro optical character recognition software, so you can scan in a document and th[illegible] edit it in your word processing or spreadsheet program.

Of course, there are downsides. While multifunction peripherals are cost-effective, they limit your flexibility. If you later need a faster print[illegible] or fax, say, you'll end up replacing the whole machine. But many buye[illegible] are willing to take that risk, given that all-in-ones cost less than half [illegible] what you'd spend outfitting an offi[illegible] with individual components. Now, i[illegible] you could just find space for those vertical files.... *Larry Armstro[illegible]*

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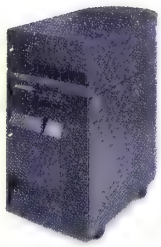
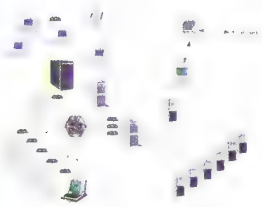


He was also the first to see that AS/400 Advanced Series could do all this with lower administrative costs than other platforms.

and the ability to add more power at a moment's notice.



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GET WITH THE PROGRAMS

Everybody knows about Win95. But there's plenty more hot new software

You've brought home a blazingly fast Pentium computer. It has Microsoft Corp.'s new Windows 95 operating system and meets all the specs that your techie friends insisted you had to get. What's more, the computer contains gobs of software that the manufacturer bundled in for free.

But you're not finished shopping yet. When you start playing with some of those "free" programs that came with your machine, you'll discover that many—including Intuit Inc.'s popular Quicken personal-finance program that comes with many PCs—are not the complete versions. You'll have to fork over some bucks for the full-fledged package. The good news: The software selection has never been better. To help with your shopping, BUSINESS WEEK took a look at some of the hottest new software packages hitting store shelves, as well as some classics that a PC owner shouldn't be without.

WIN-WIN? First, a few words on Windows 95. In most cases, any PC built since September will automatically come with the new Microsoft program. But for owners of older machines, is Windows 95 worth all the hoopla? For starters, Windows 95 will give you a less cluttered screen and organize the contents of your PC into practical groupings, designated by such icons as My Computer

and Network Neighbor
AutoPlay is a handy fe
that lets you run a CD
by simply loading the
and clicking on a few ic
a welcome improveme
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ing CD-ROM programs.
Plug & Play, a new
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What can you do
Win95? The expected
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is leading the parade.
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the software giant has
up with a raft of new
sumer titles that work
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TUNING UP. The first
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Doctor diagnoses and r
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resources. For kids,
Knowledge Adven-
My First Encyclopedia
e Random House Kid's
opedia, for ages 3 to 6
o 12, respectively. Both
out $45.
ou have been to the software aisles of your computer store, you know that there are CD-ROM programs on hundreds of topics. A recent trend has been a spate of eye-pleasing "coffee table" disks covering the fine arts. One standout is *A Passion for Art*, from Corbis Publishing, a software company owned by Microsoft's Bill Gates. The $49.95 program covers the splendid Post-impressionist paintings of the Barnes Foundation. *Le Louvre*, a new title published by BMG Interactive, gives you a tour of the Paris museum, with detailed discussions of more than 300 works, from the *Mona Lisa* to Géricault's *The Raft of the Medusa*. If you are a photography or travel buff, check out Against All Odds' *Passage to Vietnam*. The beautifully crafted program ($39.95) brings you along with some of the world's top photographers on assignment in Vietnam.

CHICKEN JULIA. Whether you want to get up to speed in a new hobby, refurbish your home, or brush up on an old pastime, there's bound to be a CD-ROM to help. Microsoft's $39.95 Julia Child CD-ROM is drawing raves. Once you master chicken à la Julia, you may be inspired to redesign your cooking space. 3-D Kitchen, the latest "how-to" title from Books That Work, lets you whip up your dream kitchen down to the tiniest detail. It's a bit difficult to master, and even on a Pentium PC, you wind up waiting for 3-D Kitchen to render a photo-realistic sketch of your plan. But the program's tips can help you avoid costly mistakes. For other do-it-yourself jobs, try Weekend Home Projects, a $45 CD from IVI Publishing.

There is even software that lets you turn your PC into an electronic scrapbook. Echo Lake, from Delrina, is a $59.95 multimedia family album that lets you keep pictures, videos, and sound clips of the entire clan, along with captions or stories you type in. For genealogy fans, Banner Blue Software's $60 Family Tree Maker helps you to track and record your family's history.

And of course, there are hundreds of programs for kids. *Dr. Seuss's ABC*, $40 from Living Books, brings the beloved Dr. Seuss characters to life in a multimedia CD-ROM, for ages 3 to 7. For the 12-and-up set, try Sierra On-Line Inc.'s *The Lost Mind of Dr. Brain*, which challenges youngsters with entertaining puzzles and brain teasers. Microsoft's $39.95 3-D Movie Maker lets budding filmmakers (ages 8 and up) mix and match characters, settings, sound effects, and actions to create their own movies, which can be saved and played back.

What about games for overworked adults? If the last game you played was *Tetris*, you're in for a surprise. The latest games use live actors, film footage, and incredibly complex plots. The most ambitious works boast multimillion-dollar budgets and have so many twists and turns that they can take up to 30 hours to conclude. *Phantasmagoria* is a haunted house thriller with enticing graphics and filmed actors. The plot revolves around a couple who move into a Gothic-style mansion where horror lurks in every eerie room. Warning: This is not for the squeamish or the prudish. The $70 game, made by Sierra On-Line, has raised alarms because of its violent content.

Activision Inc., the maker of the popular *MechWarrior*, also has some promising new titles. *Elk Moon Murder* ($29.95), a mystery set in Santa Fe, N.M., will be out in November. Activision's *SpyCraft*, a thriller devel-

SOFTWARE GALORE

A sampling of some of this year's big titles

	PRODUCT/DESCRIPTION	COMPANY	PRICE
GAMES	*SpyCraft*, An espionage thriller	Activision	$59.95
	Phantasmagoria, A horror adventure	Sierra On-line	
REFERENCE	Compton's Interactive Encyclopedia, A multimedia encyclopedia	Compton's	$99
	3-D Kitchen, Design your dream kitchen	Books That Work	$50
	Bookshelf, Multimedia reference library	Microsoft	$50
ONLINE	Navigator, The leading Web browser	Netscape	$39.95
	WebAuthor, Creates Web documents	Quarterdeck	$150
UTILITIES	Norton Utilities for Windows 95, A suite of essential housekeeping programs	Symantec	$129
COFFEE TABLE CDs	*Passage To Vietnam*, A photographic journey to Vietnam	Against All Odds/ Interval	$39.95
	A Passion for Art, A tour of the Barnes Foundation paintings	Corbis Publishing	$50

RIGHT THIS WAY

These days, you're not hip unless you're on the Net. So now, all the online services offer programs for surfing the Web

Software

oped with the help of former Central Intelligence Agency Director William E. Colby and his KGB counterpart, Oleg D. Kalugin, is due in February. As CIA operative Jack Ryan, you must protect the President from the Russian mafia. Along the way, you will pick up clues, maps, and other data at the actual Internet sites of the CIA and National Security Agency. You can even E-mail real-life former CIA and KGB spooks for advice. The title has taken $3 million and two years to develop.

Another game to look out for: *Quake* from id Software, the makers of *Doom*. id

PHANTASMAGORIA
Sierra On-Line's haunted-house game uses high-tech graphics and filmed actors. Not for the squeamish.

3-D MOVIE MAKER
Microsoft's program lets kids create their own animated movies. It's among the company's early Win95 titles

promises *Quake* will have truly amazing 3-D graphics, allowing players to look under objects and move around in ways they can't in today's games. There are also new versions of such standbys as Maxis' *Sim City* series and Microsoft's *Flight Simulator*.

JUST BROWSING. Of course, these days you're not hip unless you are surfing the Net. For newbies, the easiest way to get there is through an online service provider, such as America Online Inc., Prodigy Services, or CompuServe Inc. If you buy a PC this fall, there will be sign-up software for two or three online services, including the new Microsoft Network, which comes with Win95. Once you select a service, expect to pay about $10 a month for a specified number of hours, usually 5, and $3 per hour after that.

All the commercial online services provide gateways to the Internet, including browser programs that you can download and use to explore the World Wide Web. If you're ready for something more advanced, try Netscape Communications Corp.'s Navigator browser.

PASSAGE TO VIETNAM
Against All Odds' beautifully crafted look at the Asian nation should appeal to photography and travel b

The latest version, now in prerelease testing, is available on Netscape's Web site for free (www.netscape.com). Navigator 2.0 has the latest in cyber-software, including Sun Microsystems Inc.'s Java programming language that lets you make and use "active" Web pages—with animation programs, for example. If you don't want to download Navigator, you can buy it in a computer store. The $39.99 price includes online help and 90 days of technical support.

MONEY MATTERS. Ready to create your own Web page? There's a growing number of programs to help you. The Web is based on a format called HTML, so any information you want to put on the Web must conform to the HTML conventions. Many word-processing programs, including Microsoft Word 6.0 and Novell Inc.'s WordPerfect 6.1, come with programs that let you co documents to HTML. C terdeck's $150 Web A lets you easily create documents, complete links to other pages, Microsoft Word.

To keep track of the ey you're spending o these goodies, you n want to try one of the sonal-finance programs tuit's Quicken remains top dog in this category

Microsoft, having give on buying Intuit Inc. finished a massive rew its Money program, d stores on Nov. 1. Quicken and Money co online links that let yo up account information selected banks. And companies are develo online areas to supp nancial advice. Microso on the Microsoft Net Intuit's forum is on Internet.

With all the new t you will have no tr finding software to ru your PC. But a bigger lem may be finding time—and disk spac use it all. *Amy C with Edward C. Baig*

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LET YOUR PC DO THE WALKING

Today's multimedia computers can do everything a phone can–and more

The personal computer has assumed the role of many once-familiar tools. The typewriter, the general ledger notebook, the calculator—all have been replaced, or at least elbowed aside, by PCs in techno-savvy households and home offices.

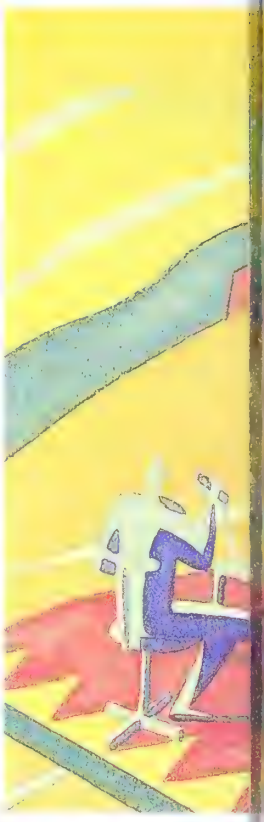
Next to go may be another annoying laggard in the world of high-tech communications: the telephone. "We've become so accustomed to this dumb animal called the phone that we don't even notice its deficiencies anymore," says Telephony Books publisher Harry Newton, a phone industry analyst. "I can't wait for the day I no longer have to deal with it."

IDIOT-PROOF. How about today? While tapping into the Internet and online services remains the main way to communicate from a desktop or laptop, PCs are becoming increasingly adept at managing voice calling. New multimedia models from Apple, Compaq, Packard Bell Electronics, and others come with speakerphones and built-in answering machines. Assuming your PC has a sound card and modem (as 80% of new home PCs do), you can beef up a PC to store and forward voice mail as easily as E-mail. And while the phone's tiny keypad requires you to remember codes, such as *7 to transfer calls, software developers are creating onscreen command pads with idiot-proof buttons marked "transfer" or "hold."

The ability to dial a phone through a personal computer has been around for a while—after all, that's how your modem works. But developing software for making us all cyberdialers is a bit trickier. "We have had to wait for hardware that doesn't make our software look clunky," says Michael Stanford, chairman of Dallas-based AlgoRhythms. His company's "virtual phone," called PhoneKits, comes preloaded on Compaq's Presario 7100 series home PCs. With PhoneKits, you can dial a number by simply clicking on a person's name in an electronic Rolodex. More such products are on the way, thanks to a standard called TAPI (telephone applications program interface), which is incorporated into Microsoft Corp.'s Windows 95 software.

Some examples of the new products: Universal messaging programs, such as AnswerSoft Inc.'s SoftPhones, let you deal with all manner of messages—faxes, E-mail, phone calls—using simple onscreen commands. Symantec Corp. is developing new versions of ACT, a contact management program, that will work with caller ID services (available to residential phone customers in every state but California). It will call up files about a caller—name, title, and details of recent conversations, for example—before you pick up the phone. If the caller isn't known, upcoming products will be able to scan electronic directories to get a positive ID.

HELP LINES. Such features are great for helping home offices come off like big businesses on the phone. PC-based voice-mail systems now cost about $340 a worker, compared with $1,040 for more complex corporate systems, according to Dataquest Inc. You can even set up a mailbox for each employee or family member. Some systems allow callers to ask for information to be faxed back simply by pressing a Touch-Tone phone key. Select-



Phone, a product that out in December from (Mass.)-based Aurora tems Corp., will for calls automatically to cellular phone or hotel "The idea is to turn t into your personal com cation system," says A CEO Paul M. Gasparro.

If you're buying a n this season, you wil many models that come phone setups. If you'r grading, there are kits Diamond MultiMedia tems, Creative Labs Miro Computer Prod among others. Priced a $300, they do the wor sound card, fax, moden answering machine all card—and come with wildering array of sof that can make configu

HOW TO PREPARE YOUR PC FOR A WIRED WORLD

28.8 BPS MODEMS At $150, they are roughly three times as expensive as slower 14.4 bps models. But if you're tired of waiting for online data to arrive, you'll be happy to pay the extra. And by early next year, anything less will be obsolete.

DIGITAL SIMULTANEOUS VOICE AND DATA MODEMS Available from U.S. Robotics and others for around $400. These modems let you talk and send data back and forth at the same time on one phone line.

ISDN To use the pacity phone line phone company data at up to 12 you need a PC a Available from 3 mond MultiMedi Robotics, they ra about $300 to $

. Luckily, most card nies have toll-free help to guide you through rocess. Another thing ep in mind about such is that the sound qual- n be tinny.

can also get into PC ıony without taking your computer. Com- Corp. and Israel-based Designs Multimedia ıunications Systems for example, make nan-size dialing mod- that let you control old telephones via the Comdial's $100 unit the parallel printer while SDS' $49 offering cts to the sound AT&T offers a $180 uter Telephone that so exploit TAPI-compli- ftware.

Meanwhile, technology is bringing new options for data communications. For example, the standard speed for modems is now escalating to 28,800 bits per second. At $150 or so, these devices are about the fastest that ordinary phone lines will handle. They cost roughly three times as much as the 14,400 versions, but if you're sick of waiting for a page from the World Wide Web to show up on your screen, you'll think it's worth the price. Dwight W. Decker, president of modem market leader Rockwell Telecommunications Inc. in Newport Beach, Calif., expects 28,800 bps models to rise from 25% of sales today to 75% a year from now.

If you're modem-shopping, consider shelling out an additional $50 to get a so-called DSVD model (that's short for digital simultaneous voice and data). Made by U.S. Robotics and others, these can transmit voice and data at the same time.

Once popular software programs are updated to take advantage of this, the work-at-home crowd will be able to talk to distant colleagues or clients while poring over spreadsheets and the like. Similarly, PC game players will be able to taunt each other mid-dogfight. Another handy benefit: When you call a PC maker's help line, a technician will be able to take control of your PC and check it out while speaking with you.

NET COSTS. With the multimedia Web, even 28,800 bps can seem pokey—as any Net surfer knows. For those who want more, new hardware and software is trickling in to retail shelves to support ISDN (integrated services digital network), a service available from most local phone companies that moves data at speeds up to 128,000 bps. Pricing varies across the U.S. Pacific Telesis Group, the San Francisco-based Baby Bell, hopes to sign up 1 million customers for ISDN by 2000. It charges $30 to install a line, a $30-a-month usage fee, and approximately 1¢ per minute. Texans, on the other hand, must pay SBC Communications Inc. $485 for installation, $37 a month, and 15¢ per minute of use.

But that's not all: No matter what the service costs, you'll also need an ISDN adapter kit to hook up your PC. Sold by Intel, 3Com, and others, they're available at stores including CompUSA and Fry's Electronics for $300 to $1000.

All this makes ISDN plenty pricey—especially since, beyond the Web, there are few applications that take advantage of its potential for delivering video and other bandwidth-hogging fare. Yet analysts predict that ISDN gear will become as common as modems when PCs take on more communications functions. "There's a constant drive for a fatter pipe," says Diamond MultiMedia CEO Bill Schroeder. Especially if yappers everywhere start talking to their PCs. *Peter Burrows*

PHONY CARDS
around $300,
-in cards from Di-
ultiMedia, Creative
Miro Computer
do the work of a
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ering machine—all
nto one.

PC-PHONE CONNECTORS
Comdial and SounDesigns Multimedia Communications Systems sell small modules that attach to your phone and PC to let you control the phone via the PC. The prices: $100 and $49, respectively.

DATA BUSINESS WEEK

HARD UP FOR SPACE ON YOUR HARD DRIVE?

Here are some ideas for cramming more data onto your disks

Figuring out your personal computer's data storage needs used to be easy: Buy the biggest hard-disk drive that you can afford. That's still very good advice, but it's not enough anymore. Rapid advances in storage capacity and space-hogging software have made it tough to determine just how big to buy. Moreover, a dizzying array of new storage devices has exploded onto the market.

So how big is big enough? The average hard drive—the central repository for all your programs and data—on a new PC stores about 850 million bytes of data. But once you install Windows 95 and associated applications, a few games, and surf the Internet, you'll want at least a gigabyte drive—a billion bytes. Besides, at less than $250, they're a steal. And you may need drives that store 1.6 gig (starting at $450) or 2 gig ($700 and up) if you're a program pack rat.

TRY CHEATING. Although a lot of cheaper PCs still use hard drives with older technology, seek out new models with the latest data interfaces that allow higher access speeds. For IBM-style PCs, drives should use one of two nearly identical interface standards: Fast ATA (for Advanced Technology Attachment) and Enhanced IDE (Integrated Drive Electronics).

If you're strapped for cash, you can always cheat: Compression software, costing less than $100, scrunches data to give you up to twice the disk space. Programs range from shareware such as PKZIP, which compresses little-used data into archives, to commercial packages such as Stac Electronics' Stacker. But if you're using Windows 95, Microsoft Corp.'s new DriveSpace3 is especially nifty.

CD-ROM drives, a staple on today's consumer PCs, are a must for multimedia and today's huge programs. Get the dealer to install one, though—it can be a configuration nightmare. Go for a quad-speed drive—which spins four times as fast as the original CD-ROM players and offers smoother video on new games. But six-speed drives are still too pricey, and few programs tap that speed yet.

With so much critical data on a hard disk that spins 5,000 times a minute, it's wise to make frequent backups. But floppy disks won't do: Even a 300-meg hard drive would take 200 floppies and several hours to back up. That's why special backup drives are becoming *de rigeur*. If you're on a budget, tape drives are the cheapest—as low as $100 to store hundreds of megabytes on one $15 cartridge. Look for drives that use the quarter-inch cartridge (QIC) or Travan standards. Main problem: Tape drives can be agonizingly slow.

The hottest backup choice is a new generation of removable drives that are cheap, fast, and convenient. Iomega Corp.'s $200 Zip drive stores 100 megabytes—70 times more than a standard floppy disk—on a single $20 disk. SyQuest Technology Inc.'s similarly priced EZ135, which uses 135-megabyte disks, is faster than the Zip. But the Zip's software is easier to use. Whichever you choose, "They're just like a s floppy," says Dataques analyst Rod Watkins.

More choices are co A 120-megabyte mega- drive from 3M, Compaq puter, and Matsushita can also read current disks is expected to be duced by yearend. High pacity backup drives— as Iomega's $500 Jaz which will store a gig on a single $100 cartri will also debut this yea the new writeable CDs, store 650-megabytes on gle disk, currently cost to more than $2,000 much for most consu And PC memory cards, store data on memory instead of rotating disk be handy for laptops. $10 per megabyte—40 as much as hard dri they're a luxury, too.

With Intel Corp. dro chip prices fast, it's tem to spend all your comp budget on the latest Pe But with programs ge piggier, buying hard- space will give you more for your bucks than before. *Rober*

PC STORAGE OPTIONS

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YOUR PC EXPERIENCE CAN BE VERY MOVING

The latest graphics trick is full-motion video, but it's pricey

When you're buying or upgrading a PC, it's natural to concentrate on essentials—microprocessor speeds, memory capacity, disk size, and so forth. But it's also worth your while to pay special attention to the technology that paints your computer screen with millions of pixels of light. If you're going to spend hours on end staring at that screen—and if you hope to see new tricks such as full-motion graphics—consider spending extra money on graphics technology.

At the very heart of a PC's display system is the graphics chip, a specialized microprocessor. Like the high-octane chips that run the computer—Intel Corp.'s Pentium or Motorola Inc.'s PowerPC—these have gotten a significant horsepower boost lately. All new PCs and Power Macs feature 64-bit chips, which handle twice the amount of visual data as last year's graphics chips.

FULL WEB VIEW. To get even better performance, consider graphics-accelerator cards, which incorporate additional processor chips and memory. They ease the load on the PC's main processor by performing the calculations needed to draw and move geometric shapes on the screen. And in a world ruled by graphical software such as Microsoft Corp.'s Windows and Apple Computer Inc.'s Mac operating system, these cards speed up everyday performance, too. Diamond Multimedia Systems' Stealth 64 Video 3200, Matrox' MGA Millennium, and ATi Technologies' Graphics Xpression—all for PCs using Intel's PCI bus—did well on tests by NSTL, a unit of McGraw-Hill, publisher of BUSINESS WEEK.

All the 64-bit graphics cards found in the new PCs and Power Macs performed speedily and flawlessly in the test of 800-by-600 pixel resolution—the so-called SVGA mode. The key differentiating factor is the amount of memory installed on the card. Look for at least 1 megabyte of VRAM—video-memory chips that are faster than chips in the main computer memory. The more VRAM, the less time the graphics processor will wait for data to arrive from main memory.

All the glitzy images coming off that graphics card won't do you much good if you don't have a decent screen. This year, many PC makers are including larger monitors—15 inches, measured diagonally, instead of 14 inches. For true power users, however, a 17-inch monitor is the minimum, and you can go as high as 20 or 21 inches. These put more information on the screen by allowing the graphics card to use a higher resolution. With a large screen, you see an entire page from the World Wide Web rather than half or three-quarters, for example. Some top models: Nanao's FlexScan F2-17, NEC Technologies' MultiSync XV17, and Sony's Multiscan 17sf.

Bear in mind that most of these 17-inch units take up a lot of desk space, weigh 50 pounds, and may cos than $1,000. Also, wher ping, remember to vie eral monitors under li conditions that are sim what you have at home

CAPTURE BOARD. Slow inexorably, the line be PCs and TVs is blurri you want to cross it consider a digital vide conforming to the so MPEG-1 standard.

IS IT A PC OR A T
MPEG movie imag steady and fill the

cards decompres eo movies that been stored i MPEG format an play full-motion movies that fil whole screen— improvement ov jerky little snipp video you can vi conventional PCs. MPEG made by Sigma Desig fin, and Real Motio around $200. However, boards vary widely w comes to image qualit ease of installation. more, there aren't compelling programs ROMs that use MPEG ye next year, analysts say will be plenty. In the time, Compaq Com Corp.'s new Presario and 9500 home PCs built-in MPEG capabilit

If you want to get own video images int PC, you will need a so video-capture board. are pretty pricey—a $500—and limited in capabilities. For exa they might be ab capture moving vide it won't be anywhere full-screen, and pla will be choppy. Still, it that long ago that ma couldn't even repr high-fidelity sound. So video is something b will want to keep thei on. *Pa*

FROM PLAIN PC TO A VIDEO STAR

What you'll need:

GRAPHICS ACCELERATOR BOARD Your 64-bit graphics board should have at least 1 megabyte of video memory (VRAM). More megabytes of VRAM is better. $170 to $450.

MONITOR The current rage is 17-inch (measured diagonally) or larger displays. They're a big commitment in space and money. $600 to $1,500.

VIDEO DECOMPRESSION BOARD MPEG cards allow PCs to play full-motion, full-screen digital video. Quality and ease-of-installation vary. $200 to $300.

DATA: BUSINESS WEEK

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ush back your seat and
djust your footrest. A sip of
ordeaux. A taste of Brie.
ou turn the sound up a
otch and close your eyes.

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FROM IN LINE TO ONLINE

The best ways to do your banking from your keyboard

For many people, balancing the household budget often requires mad dashes to the bank to keep a check from bouncing or to the post office to get the mortgage payment in on time. Even the more fiscally fit routinely have to give up a precious half hour just to stand in line at the bank. So wouldn't it be great for folks everywhere to have a bank branch in their own home or office?

Thanks to the technology revolution, it's happening. Financial institutions across the country are using software programs, online services, and even the Internet to allow customers to check balances, pay bills, and transfer funds among accounts. Bankers promise that, in the near future, you'll also be able to more easily buy certificates of deposit, mutual funds, and other investments, and even apply for loans electronically.

The simplest way to bank from home is to use the "screen phones" sold by some institutions. These specially designed phones allow users to perform the simplest tasks, namely to pay bills and check balances. But this convenience doesn't come cheap: Screen phones can cost anywhere from $80 to more than $200, and $7 to $10 in monthly fees—a hefty price given their limited usefulness.

BRAVERY. If you're comfortable at a keyboard, however, there are better options available. Some institutions, such as Citibank and Wells Fargo Bank, have long offered proprietary software that enables checking customers to tap their accounts via modem. The Prodigy online service offers links to 15 banks, but in some cases you'll have to pay a surcharge above Prodigy's basic $10 monthly charge. A few brave banks, including Wells Fargo, are offering limited services across the Internet, although many others say that they're holding back until cybersecurity is improved. At any rate, individuals' potential loss from online theft, as in the case of credit-card fraud, is limited by federal law to $50 in most cases.

For most people, today's best option may be to plug into their bank through one of the three leading home-budgeting software programs: Intuit's Quicken ($40), Microsoft Money ($35), and Managing Your Money ($40), which is owned by NationsBank and Bank of America. The latest versions of Quicken and Microsoft Money have made it easier to download financial records and have also increased the number of participating financial institutions. Meanwhile, Managing Your Money vows to have its online banking capabilities ready by spring.

Some participating banks offer either free or heavily discounted copies of these budgeting programs, and many PC makers bundle them with new machines. Sometimes banks waiv monthly fee fo dling bill ments—whic ally start a $6 for 20 tr tions—for thei customers. Manhattan has even bee ing a $50 bonus t tomers who rema line for three m Why? Many bank these services as best hope for red the costly process paper checks.

There's a big lim to the budgeting grams, however: Bank only allow you to acces credit-card records vi software if you have a ing account with the your credit card comes another bank—and ch are that it does—you get to that data electro although banks indicat will eventually ch What's more, bill pay are not controlled by bank, but by Intuit: Its inghouse currently pro payments for both Q and Microsoft M Nonetheless, most bank veyed insist that the cover any penalties o incurred if a customer' aren't paid on time th Intuit's error.

Which of these pro should you choose? The answer is the one tha connect you to your Microsoft Corp. (800 8458) has only four linked to its Windows 3. sion, but 17 to the new dows 95 edition of M Quicken (800 224-1047 ties to many of the banks, plus access to A can Express Co. and Barney Inc. You can g extensive list of partici institutions from BUS WEEK Online on Americ line. All that you have t are those late-night das the bank. *Dean*

BANK-FROM-HOME OPTIONS

SCREENPHONES Some banks, including Citibank and NationsBank, sell special phones that enable you to pay bills and transfer funds between accounts. But the pricey phones' functions are limited.

PC SOFTWARE A growing number of banks allow you to access account data directly through popular home-budgeting programs such as Quicken. The software can also be used for paying bills.

THE INTERNET Banking has entered cyberspace, with institutions such as Wells Fargo opening World Wide Web sites offering access to personal account data and loan applications.

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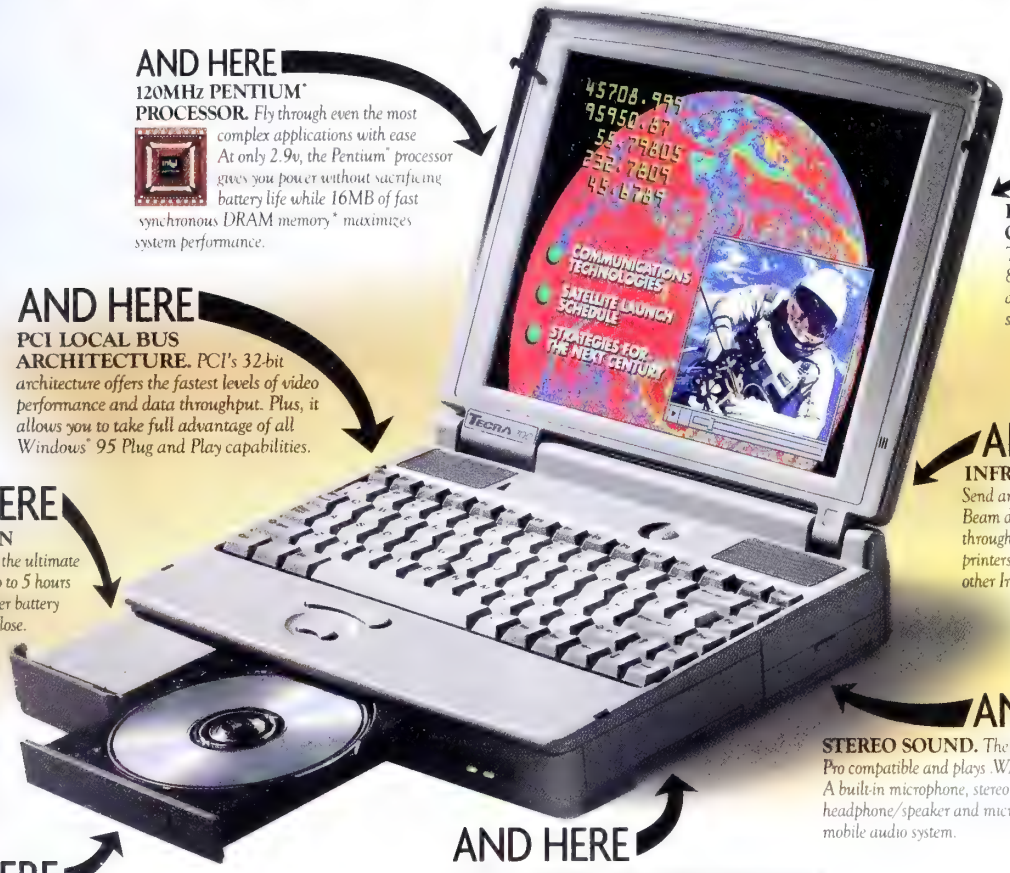

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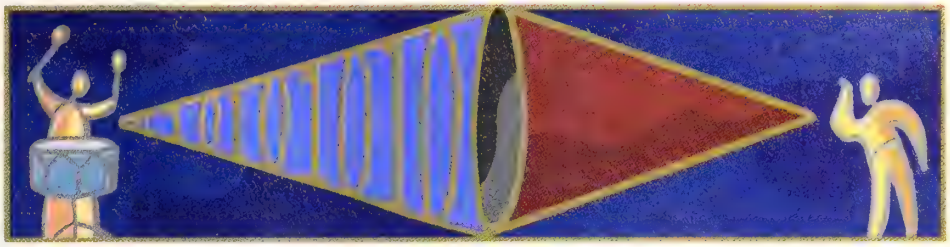
D BY PETER COY

EADY FOR TV STATION UR DESK

IDEO-ON-DEMAND COME r PC before your TV? e, if VDOnet Corp. has . On Oct. 30, the Santa Calif.) startup was to ce a new technology Dolive that it says will udimentary, live video ent over the Internet ceived over ordinary ines.

part of VDOnet's sys- a new compression hm that not only es video data small for transmission over d phone lines, but also es the picture when it faster connection. The lement is a new com- ions protocol that pre- ackets of video data being scrambled or l up as they pass over ernet.

ive won't challenge on anytime soon: At 0 frames per second sent—even with fast, obit-per-second mo- d no heavy traffic on work. But with speedi- (integrated services network) phone lines, are arriving fast, st-quality, 30-frame- nd video may be pos- onet Chief Executive hr hopes the technol- l usher in an era in nyone with an Inter- nection can become a roadcaster.



CHAOTIC, BUT LOUD AND CLEAR

CHAOS SOUNDS LIKE THE opposite of communications, but researchers in Maryland have put them together in a way that will rely on cheap, simple transmission gear. The effort is led by Scott Hayes, a physicist with the Army Research Laboratory in Adelphi, Md., who is working on his physics doctorate at the University of Maryland in College Park with professors Celso Grebogi and Edward Ott.

Hayes exploits the fact that chaos does not equal randomness. Actually, a chaotic system's behavior can be predicted for a short time. By applying tiny, well-timed nudges to a chaotically oscillating radio or lightwave circuit, Hayes can control its output. A properly tuned receiver could interpret the output as a series of zeros and ones of digital code.

One advantage of the system is that the information-carrying wave remains analog, so it can be boosted and cleaned up with simple analog gear instead of the complex circuitry that is used in fully digital transmission.

Hayes says he has been approached by several companies interested in commercializing the Army-patented system for use in fiber-optic communications—not to mention by Search for Extraterrestrial Intelligence Institute researchers who want to send interstellar radio messages.

ULTRASOUND COULD HAVE THE WOUNDED WALKING

TO A WOUNDED SOLDIER OR A CAR-CRASH victim, an hour can be the difference between life and death. That's the time it typically takes to bleed to death. Researchers at the University of Washington and Focus Surgery Inc. of Fremont, Calif., are developing an ultrasound device that could be rushed in to stanch hemorrhages. The technology is completely noninvasive: It uses sound waves to pinpoint and cut off bleeding.

According to Lawrence A. Crum, a principal scientist with Washington's applied physics department, the 300-pound ultrasound machine could use low-intensity sound waves to view a damaged organ and pinpoint the exact places where internal bleeding occurs. With the flip of a switch, it could then generate high-intensity ultrasound that focuses energy onto a small spot—a bleeding vein or artery, say. The resulting heat would coagulate blood and cauterize the injury. Such a method is already being tested on people to shrink enlarged prostates.

The Defense Dept.'s Advanced Research Projects Agency is kicking in $10 million over five years to develop this technology for the military. Crum predicts civilian paramedics will use it, too—perhaps within five years.

VATIONS

ER: *Dust-fighting fog*

■ Environmental Engineering Concepts Inc. of Palm Springs, Calif., is a leader in high-tech fog. The company says its antidust system operates on as little as 5% of the energy used by bag filter systems or containment rooms. They're used in quarries, waste-transfer stations, and asbestos abatement projects.

■ Giga Ltd. of Tel Aviv, Israel, is pushing a new idea in flat-panels—a miniature ferris wheel whose spinning arms are coated with light-emitting diodes. Co-President Yuval Eshel says the wheel approach saves money by using fewer LEDs. He's seeking backers to scale it up to 40-inch-diagonal screens.

■ A forensic dentist is selling software that helps identify bodies from dental records. Dr. Howard S. Glazer of Fort Lee, N.J., says his $795 CAV-ID (computer-aided victim identification) software is faster and easier to use than the program being used by the National Crime Information Center.

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INVESTIGATIONS

HARD QUESTIONS FOR DAN DORFMAN

The Feds are probing the TV tipster's relationship with a stock promoter

Among stock-market tipsters, CNBC's Dan Dorfman is in a league of his own. His daily three-minute telecasts are must-watch viewing for everyone from Wall Street's most sophisticated traders to enthusiastic amateur investors across the country. When he offers juicy takeover rumors or reports his picks and pans among U.S. companies, share prices frequently jolt up or down.

To serve up his diet of sizzling tips, Dorfman depends on a stable of sources: analysts, stock promoters, short-sellers, and Wall Street dealmakers and stock-pickers. Yet for years, some critics complained about Dorfman's dependence on inside tips, since many of his sources stand to make big money from his power to move markets.

Now, those criticisms have emerged as far more serious allegations. BUSINESS WEEK has learned that the U.S. Attorney for the Eastern District of New York is looking into Dorfman's relationship with Donald Kessler, a West Babylon (N.Y.) stock promoter who is a regular source of tips for Dorfman. According to sources close to the investigation, both Dorfman and Kessler are under investigation for activities including possible illegal insider trading, wire and mail fraud, and violations of securities laws.

The Brooklyn-based prosecutors are looking into the sometimes hefty payments Kessler allegedly receives in exchange for introducing company managers to Dorfman, as well as whether Kessler in turn compensates Dorfman for mentioning some of his clients.

HUGE FEES. BUSINESS WEEK has turned up no evidence that Dorfman—who also writes a monthly column in *Money* magazine and until recently wrote a column in *USA Today*—receives anything from Kessler. But their relationship is at the heart of the U.S. Attorney's inquiry. Dorfman contends his treatment of Kessler is no different from what he would give any other PR person seeking to get a client mentioned favorably on his broadcast. But a six-month BUSINESS WEEK investigation indicates that Kessler used his access to longtime friend Dorfman to earn fees that were large by industry standards. It also suggests that Dorfman commented about companies with doubtful business prospects that were Kessler clients, raising the question of whether his journalistic objectivity was blurred by his friendship and whether investors trading on Dorfman tips may have suffered as a result. Meanwhile, sources at the U.S. Attorney's office say prosecutors are examining unusual trading activity in at least one Kessler-linked company prior to Dorfman broadcasts. One investigat says the office is examining wheth Dorfman was used by insiders to infla the value of their stock and whether was aware of being used that way. "I we learn more about other Kessler co panies, we'll be looking at trading pa terns, too," the investigator says.

"FULL CONFIDENCE." Both Dorfman a Kessler say they are unaware of a investigation, and they dismiss the all gations as groundless. "Who cares?" sa Dorfman. "I assume the SEC and othe are always looking at me." A CNI spokesman says it has high ethical sta dards, and "we believe [Dorfman] h observed our standards over the years

NO WAY

"I would never jeopardize my career and integrity for a fast buck"

—DAN DORFMAN

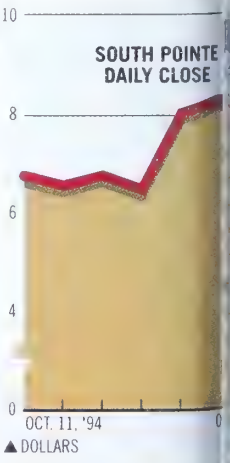
A WORD FROM DAN

Have Dorfman's links to a stock promoter influenced his reports?

SOUTH POINTE

FALL, 1994 South Pointe hires promoter Don Kessler. He is allegedly paid $10,000 to $15,000 to arrange a meeting between South Pointe's CEO and Dorfman. Kessler says he received only $5,000 and provided other services.

OCT. 17, 1994 A bullish Dorfman report sends stock up 25%, to 8½. Dorfman says he wrote it because it was an "interesting idea." Two months later, the stock begins to collapse. It currently trades below 4.



orfman denies any suggestion that ıkes money or is aware of any insid- ·ading based on his tips. "I would r jeopardize my career and integrity fast buck," he says. Adds Kessler: ·y can look at my relationship with if they want to. I've never done hing wrong." Frank Lalli, manag- ·editor of *Money*, says: "I have full ıdence in Dan and his integrity as a ıalist."

ıt numerous sources say some com- ·es are willing to pay Kessler hand- ·ly for an audience with CNBC's mar- mover. After all, a plug from man can send a company's share through the roof. These sources Kessler typically asks for cash pay- s ranging from $10,000 to $30,000 to p a meeting. Kessler denies receiv- ıuch fees; Dorfman says he doesn't how much Kessler is paid.

TED VIDEO. Although Dorfman gets from a wide network, sources fa- r with Kessler say he is unique: cts as a gatekeeper, screening many companies. "That's his calling card. ot us to Dorfman," says Nick Morf, er CEO of Alter Sales Co., a Light- Point (Fla.) company that worked Kessler early this year. Dorfman ·s Kessler has any special access.

ıt Morf and representatives of three companies say Kessler makes no s about what his fees are for—fa- ıle coverage. "The money we gave ler was for one purpose only: to with Dorfman," says one CEO. ·ssler] promised a positive story."

ıth Kessler and Dorfman deny that ler ever assures companies he can ıise positive coverage. "Don has ght me a lot of great stories," says ·eporter. "He has set up meetings e I've done negative stories. There's ıarantee with me."

uth Pointe Enterprises Inc., a ston (R. I.) chain of X-rated enter- ıent shops, apparently thought oth-

erwise. Soon after it hired Kessler in the fall of 1994, Kessler arranged a meeting of Dorfman and South Pointe CEO Carl Bruno. Kessler collected between $10,000 and $15,000 for the introduction, according to two sources familiar with the deal. Kessler says he received only $5,000, mainly for introducing South Pointe to X-rated video photographers.

Not long after Dorfman met Bruno, he wrote a bullish *USA Today* column, on Oct. 17, 1994, quoting Bruno's optimistic growth plans. Within three days, South Pointe's stock rose 25%, to 8½, on volume averaging five times the norm of the preceding six months. The stock has since fallen to 4. South Pointe declines comment. Dorfman says he considered South Pointe an "impressive idea."

Alter Sales was another Kessler-related company Dorfman got interested in. Alter was a public "shell"—a money-losing auto-parts retailer taken over by Kessler clients with an undeveloped cable-TV advertising idea. Despite the company's questionable prospects, Dorfman featured it in his program on Apr. 18, 1995—after Kessler arranged a dinner with a company executive. That day, the share price rose slightly, to close at 7¼, on a record volume of 334,000 shares—seven times the average daily volume. As payment for his role in the takeover, Kessler received 20,000 shares of the company's stock. Former Alter CEO Morf says Kessler told him he reaped $150,000 by selling his shares on Apr. 18 during the heavy trading spurred by Dorfman's report. Kessler declines comment on the figure but confirms selling. He adds: "Dan couldn't care less if I sell stock." Dorfman denies any knowledge of Kessler's sales.

Within four months of the CNBC plug, the company collapsed. Today, the shares trade for around 40¢. Morf says he was forced out in late August. Kessler, now on Alter's board, alleges that Morf stole company funds, which Morf denies. Dorfman defends his mention of the company as an "idea stock," noting that he later "knocked it" when it stumbled.

Kessler and Dorfman first met in the late 1970s at New York's Tavern on the Green restaurant, and the two hit it off. They share a tough upbringing in Brooklyn. Kessler is a high school dropout, and the 63-year-old Dorfman, who spent a few years in an orphanage, never graduated from college. They often shoot pool together on Saturday nights at a billiard club on Manhattan's East 86th Street. Kessler, a 51-year-old freelance promoter who focuses on penny-stock companies, has set up numerous dinners with Dorfman for his corporate clients.

NOTHING UNTOWARD. Their relationship benefits both: Kessler collects a fat fee, and Dorfman frequently gets a story. Dorfman acknowledges that his meetings with Kessler's clients yield fees for his friend. This fact, at a minimum, raises questions about the objectivity of his reporting. "That isn't fair to investors who may buy stock based on the reports," says one federal official.

Both Dorfman and Kessler deny anything untoward in their relationship. Both characterize Kessler's fees as noth-

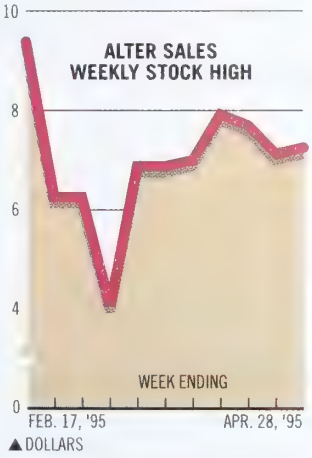
JUST PR FEES?

> "They can look at my relationship with Dan if they want to. I've never done anything wrong"
>
> —DONALD KESSLER

ALTER SALES

, 1995 Kessler helps ıy Alter Sales, using ıany as a shell to ın untested cable-TV ıg device. Kessler 20,000 shares. Soon ·ssler arranges dinner man for Alter execu- an investor.

995 Dorfman features CNBC. As stock rises o 7⅛, Kessler sells a $150,000 gain, ıer Alter CEO. Four ater, Alter collapses. ‹ now trades at 40¢.



DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK

Ah, isn't the information age just wonderful?
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ı Dante's *Inferno,* the damned in the seventh circle of Hell must stand neck deep in boiling lava. ot that things are quite that bad in today's business world. At least *you* can get GroupWise™—the oupware solution from Novell®. Its Universal In Box helps you control the flood of information letting you see and manage E-mail, appointments, faxes, even voice mail—all from one place. nd with GroupWise you have the option of using a laptop, phone, or pager to retrieve your essages no matter where on earth (or in Hell) you are. So follow the lead of over 5 million users who e already being kept in the loop, and out of limbo. *To learn how other companies are staying on top, check out http://www.novell.com on the Internet, or call us at 1-800-778-1851.*

ing more than standard public-relations fees. "PR people come to me all the time. I assume they get paid," says Dorfman. "If Don is to be criticized for that, every PR business should be criticized." Adds Kessler: The suggestion that "Dan takes payoffs is total bull. He's interested in one thing, and that's a good story."

Dorfman denies that Kessler can influence his stories. And although Kessler allegedly claims the contrary to his clients, there's no certainty Dorfman will mention all of Kessler's companies. Indeed, another promoter says he paid Kessler fees of up to $15,000 on behalf of his clients, who feel cheated because Dorfman never did stories on them.

BUYING COVERAGE

"The money we gave Kessler was for one purpose only: To meet with Dorfman"

—A CLIENT CEO

Nor is there anything wrong with pitching Dorfman stories. Public-relations firms often try to place articles in specific publications. But PR experts say the idea of charging big fees for a meeting with a particular journalist is unknown. "I've never heard of a company paying for an interview with a journalist. It's highly unusual," says George Sard, head of Sard Verbinnen & Co., a New York financial-PR firm.

And several sources allege that on one occasion Kessler threatened to use his access to Dorfman to punish clients who don't pay up. They point to Organogenesis Inc., a biotech company developing a substitute skin graft that BUSINESS WEEK wrote favorably about in its Inside Wall Street column in January, 1995. On February 9, Organogenesis was the target of a blistering report by *Sturza's Institutional Research*, a newsletter read by short-sellers—and often cited by Dorfman in stories.

MONEY OWING. Within days of Sturza's report, Kessler was introduced to executives at the Canton (Mass.) company. Three sources familiar with the deal say Kessler warned the company that Dorfman would run a negative story based on the newsletter. Kessler denies making that warning. The sources allege that Kessler assured company officials that a meeting with Dorfman would produce a positive story. Kessler requested $100,000 in cash but agreed to take $40,000, the sources say. Kessler denies that he ever asked for $100,000 or that he promised any positive coverage. But he confirms that he is owed $40,000 by Organogenesis.

After Kessler arranged a Feb. 22 breakfast meeting with Dorfman and company officials in New York, the journalist had this to say in a 40-second CNBC spot: "Biotech stock barons just recently knocked Organogenesis, based on a report by analyst Evan Sturza. The company says Sturza is all wet. Who knows who's right?" Although it wasn't the knock-out punch the company had feared, Organogenesis officials were angry they didn't get a positive plug and refused to pay. So Kessler called the company several times through mid-March. Several sources allege that Kessler threatened that Dorfman would air critical reports. Kessler denies ever making this threat. And although company officials have no knowledge of discussions between Dorfman and Kessler, Dorfman's views did harden: He slammed Organogenesis three times during the next few months, often citing Sturza's reports.

After back-to-back daily negative reports by Dorfman, Organogenesis' stock hit a 52-week low of 8½ on June 2, a 45% drop from early February. Dorfman says he wasn't influenced by Kessler in any way. He has since stopped skewering the company. Its share price has rebounded to more than 18. A source familiar with the deal says the Securities & Exchange Commission has looked into unusually heavy trading prior to the Dorfman and Sturza reports. The SEC declines to comment.

THE NEXT STEP

"As we learn more about other Kessler companies, we'll be looking at trading patterns, too"

—U.S. INVESTIGATOR

Sources at the U. S. Attorney's office say this is not the only investigation under way concerning unusual trading patterns in stocks to which Kessler and Dorfman have ties. The probe by Brooklyn prosecutors and U. S. postal inspectors—who are involved because criminal securities violations can often lead to charges of mail fraud—stems from numerous scoops Dorfman reported in covering the saga of Spectrum Information Technologies Inc. in 1993. In M that year, Dorfman did a negati port in which he debunked the v a contract Spectrum had announ provide technology to AT&T. The sent the stock tumbling by half, t NASDAQ record volume of 34 r shares.

Furious, Peter T. Caserta, then trum's president, hired Kessler to duce him to Dorfman. As part o became a roughly eight-month P sulting agreement, Kessler sa earned $5,000 a month and $25,00 the sale of Spectrum stock he re

DROPPING APPLE. Until Dorfman' inal report in May, Spectrum ha an obscure, money-losing wireles munications company. But over t lowing year, Dorfman helped m one of NASDAQ's most active stock more than a dozen reports abo company. Many detailed market-n management changes and Spec growing legal problems. On O 1993, Dorfman broke the story th mer Apple Computer Chairman Sculley was joining Spectrum—a shares soared. When Dorfman bro news three months later that S was leaving, Spectrum shares plu ed. After both disclosures, NASDA two of its biggest-ever single-da umes for a stock.

The tipster for Dorfman's Spe scoops was Kessler, accordi prosecutors. Bu the link may back to haunt man and his fri drew the attent investigators, w ticed unusually trading before c ny announce and before seve Dorfman's s broke. That le formal investi into Spectrum t by the SEC an U. S. Attorney fice—and also c prosecutors to looking at the relationship betwee man and Kessler. Among the ques Was Dorfman aware of insider trad advance of his reports? And did l ceive anything beyond news tips Kessler in exchange for doing Spe stories?

A BUSINESS WEEK investigatio shows that in at least one example appears to have been unusually l trading ahead of a Dorfman report small-cap stock Kessler is linked t

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ymouth Neon Coupe

$199 per month

24 Mos./$995 down*

1996 Plymouth Neon Coupe

Chrysler LHS

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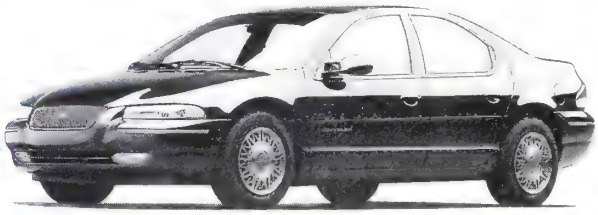

1996 Chrysler Cirrus

Chrysler Concorde

$269 per month

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1996 Chrysler Concorde

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fied lessees through Gold Key Lease, Inc. Based on 1996 MSRP examples of Neon w/ 22D pkg., LHS w/ 26J pkg., Cirrus LX w/ 24J pkg., and Concorde LX w/ 22B pkg. Assumes ticipation of $260 (Neon), $1,675 (LHS), $525 (Cirrus), or $575 (Concorde). Tax, title, license & insurance extra. Up front, pay down payment of $995 (Neon), $1,995 (LHS), rrus) or $1,595 (Concorde), plus first month's pmt. and refundable deposit of $225 (Neon), $425 (LHS), $275 (Cirrus) or $300 (Concorde). Monthly pmts. total $4,782 (Neon), HS), $5,988 (Cirrus) or $6,458 (Concorde). Pay for excess wear, $0.15/mi. over 24,000 mi. for all vehicles and $275 fee if vehicle returned at end of term. Offer ends 12/31/95 buy at lease end at pre-negotiated price. Always wear your seat belt. **Dealer prices vary.**

stock was RailAmerica, a short-line hauler based in Alexandria, Va. Its CEO, Gary O. Marino, says Kessler helped set up a phone interview with Dorfman, which resulted in a positive CNBC story on Aug. 31, 1994.

But RailAmerica's stock started moving the day before Dorfman plugged the company: On Aug. 30, RailAmerica's shares jumped about 20%, to 3¼, on volume of 156,000 shares—triple the daily high for the previous eight months. Market experts say that can mean that investors or NASDAQ broker-dealers were positioning themselves in the stock before an expected market move. And the day of Dorfman's report, volume soared to 1.6 million shares as the price jumped to about 4½—a 60% gain over the two-day period. BUSINESS WEEK has no evidence that either Kessler or Dorfman was tied to a leak. Dorfman denies any leak took place. He says that as with many stories reported by the press, his reporting calls can cause sources to conclude he is doing a story.

"BRANCH OUT." These days, Dorfman may be having second thoughts about the appearances of his friendship with Kessler. Kessler says Dorfman recently urged him to "branch out." Kessler has interpreted his friend's advice as a request not to rely so much on Dorfman for his stock-promotion business.

And Kessler seems to be having second thoughts of his own. Throughout the BUSINESS WEEK investigation—which included four dinners and more than a dozen interviews with Kessler—the stock promoter openly discussed his ability to get Dorfman to write about his clients. But facing questions about the impending investigation, Kessler backed off many of his previous assertions. He now says that many of the companies he had discussed earlier were really clients of Joseph Stevens & Co., a brokerage firm with which he became affiliated in 1994. Kessler also now claims he was paid for setting up a dinner for one client with this reporter.

Kessler has recently gotten involved in managing a client company, Comprehensive Environmental Systems Inc., a West Babylon (N. Y.) reclamation outfit. Kessler was named CEO of the penny-stock company in March. One of his first orders of business? Getting a plug on Dorfman's show. A few weeks ago, he arranged dinner together for Dorfman and Michael O'Reilly, Comprehensive's top environmental executive, at Pietro's in Manhattan. But so far, Dorfman hasn't mentioned it.

By Michael Schroeder in Washington

INSURANCE

IS CIGNA CREATING A TIME BOMB?

Rivals fear being stuck with the insurer's asbestos liabilit

Is Cigna Corp., the nation's 24th-largest property and casualty insurer, trying to walk away from billions of dollars in asbestos and environmental claims and leave rivals with the bill? That's what some of Cigna's biggest competitors are afraid of.

On Oct. 2, the Philadelphia-based insurer announced a plan to transfer those claims to a new company, Brandywine Holdings. Since that would make the remainder of Cigna healthier, the move has been a smash on Wall Street, driving the firm's shares to a new high. Says Cigna Property & Casualty Div. President Gerald A. Isom: "Our objective is to stay viable."

If Cigna gets its way, other insurers may also limit their environmental losses by moving liabilities into separate units. But several rivals—AIG, Chubb, and St. Paul Cos.—want to thwart Cigna's strategy. Chubb General Counsel Robert Rusis says he may take legal action to block the Brandywine deal. And American International Group Inc. Chairman Maurice R. Greenberg indicates he may file a complaint with Pennsylvania's Insurance Dept. He fumes: "This is unacceptable."

Indeed, a draft of a possible AIG complaint, obtained by BUSINESS WEEK, calls Cigna's plan a "farce." Cigna, the document says, "is seeking the department's blessing to benefit itself by walking away from its responsibilities to its existing policyholders."

Cigna insists nothing could be further from the truth. It says that if anything, Brandywine will be overcapitalized, with $7.5 billion in assets and other coverage to offset possible losse Cigna's opponents worry that wo er these liabilities, which even concedes are hard to predi Brandywine's reserves were insu the Pennsylvania Guaranty Fund have to rescue it. By law, any sl in the fund would be covered by insurers, including those—like A Chubb—that w writing environ policies decades

Cigna is fa the only insure is grappling wi ing environ costs from old p Paulsen, Dowli curities, a H brokerage firm mates that the try eventually w as much as $75 in asbestos an ronmental clai insurers have re only $40 billion such potential Several major p including Aetn Fireman's Fund boosted reserv cover environme abilities. Along w restructuring Cigna boosted re for such claims billion, taking a of $750 million third-quarter earnings.

Cigna's foes are now pres Pennsylvania Insurance Commis Linda S. Kaiser. Greenberg charg ser shouldn't rule on Brandywi cause she was a Cigna staff lawye 1985 to 1992. A spokesman for G or Thomas J. Ridge says "there's lutely no conflict of interest," and still plans hearings after Thanks The outcome will have ramificati beyond the Keystone State.

By Joseph Weber in Philadelph William Glasgall in New York Richard A. Melcher in Chicago

A DISPUTED TRANSFER

WHAT CIGNA PLANS

It wants to split its U.S. property and casualty insurance business, putting old asbestos and environmental claims into a new carrier called Brandywine with assets and other commitments of $7.5 billion.

WHAT COMPETITORS SAY

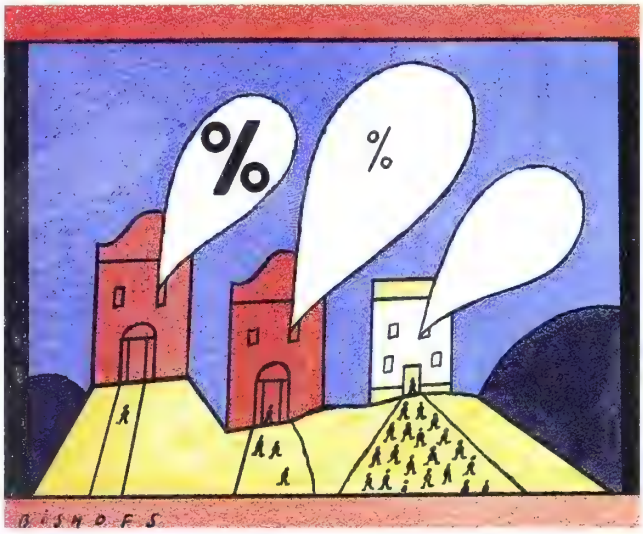
American International Group, St. Paul Cos., and Chubb claim Brandywine won't be adequately capitalized and may eventually be forced to tap Pennsylvania's industry-financed insurance guarantee fund.

DATA BUSINESS WEEK

E BIG BOYS FINALLY Y 'YES' TO NO-LOADS

etition with discounters may radically alter the industry

almost as if -Cola had ed pushing on the side. iggest Wall brokerage or years the ons of mutual loaded with sales charges, out to dive he no-load



n Barney Inc., ion's second- broker, plans an array of funds next longside the lineup of load Merrill Lynch s expected to it a similar out officials sist no deci- s been made. udential Se- Inc. rolled o-load plan in eptember.

INVESTORS WIN Fusing load and no-load funds into one giant marketplace will drive mutual-fund loads lower, benefiting buyers

brokers are sure to jump in, eir moves could reshape the fund industry, fusing load and funds into one giant market- ith investors the big beneficia- -front loads, paid at the time of e, have already come down 5% in the early 1980s to the % range and will drop further. nd" loads, paid if funds are sold preset times, should fall, too. esn't mean an investor will be buy no-loads through a full-ser- oker without paying anything. of a hefty load, investors will broker a small annual fee n the value of his funds.

OP SHOPPING. Several trends ing the giant brokers to re- Investors are resisting sales According to industry figures, or "direct-marketed" funds 45% of sales last year, up from 1988. "The public has been told media that paying loads is a thing," says analyst Guy vski of Sanford C. Bernstein & Co. Indeed, the evidence shows that paying a load doesn't necessarily deliver better performance.

Discount brokers are also adding to the popularity of no-load funds. Discounters such as Charles Schwab, Fidelity Brokerage Services, and Jack White offer one-stop shopping, making hundreds of no-load funds accessible with one phone call and consolidating all reporting on one statement. Investors may pay only a small transaction fee, or sometimes, no fee at all. The discounters can offer fee-less investing because the fund companies pay them about 0.25% a year on the assets they bring in.

This centralized fund mart has been a huge success. Before, investing in five no-load funds run by five companies meant five phone numbers, five accounts, and a blizzard of paper. Schwab, with its Mutual Fund Marketplace, pioneered the idea. It now has $46.5 billion in assets (chart). Fidelity Funds Network, which offers its own and others' funds, has $20 billion. Jack White, the next largest, has $3 billion.

The big brokerage firms are fighting on two fronts to get the no-load business. Smith Barney and others plan to offer the no-loads as part of "wrap" programs. These mutual-fund wrap plans waive the loads but levy an annual asset-based fee, likely between 1% and 2%, for such services as selecting funds, monitoring performance, and providing reports. Neil Bathon, president of Financial Research Corp., says asset-based fees remove a potential conflict-of-interest. With loads, brokers may be tempted to select the funds which pay them the most. With asset-based fees, there's no such allure.

NEW OPPORTUNITY. The other strategy is to get existing and new clients to move their no-load funds into a central account that the brokerage firm will manage for a fee—the amount of which has not yet been determined. "Many come to us with funds purchased elsewhere, and we have to be able to give them advice," says Jay Mandelbaum, Smith Barney's director of retail marketing.

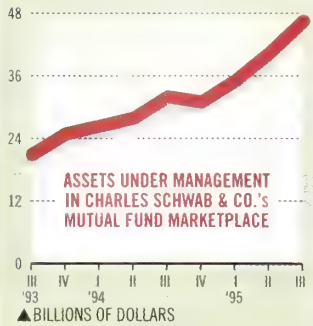
Discount brokers don't provide advice on which funds to buy, but thousands of independent investment advisers do, utilizing the discounters' mutual-fund networks. Says Timothy F. McCarthy, Schwab's executive vice-president in charge of mutual funds: "The full-service firms won't be able to compete with our advisers, who have lower costs."

As the major brokers turn toward no-loads, the big load-fund companies, like Alliance Capital, Franklin, and Putnam, will have to offer no-loads, too. "We'll get a crack at investors who would never consider a load fund," says Greg Johnson, president of Franklin/Templeton Distributors Inc. Alliance and Putnam now provide funds without loads to professionally managed accounts. William N. Shiebler, senior managing director of Putnam Cos., says companies like his will eventually sell direct to do-it-yourselfers, too. But, he adds, "most people will want advice."

It will take some time to see if the big brokerages can capture a big chunk of the no-load business. But no matter who prevails in the mutual-fund melee, the investor wins.

By Jeffrey M. Laderman in New York

WHY THE BIG BROKERS ARE GOING NO-LOAD



DATA COMPANY REPORTS

BY GENE G. MARCIAL

VALUJET SOARS, BUT DON'T BAIL OUT

Nothing flies like success. And against great odds, ValuJet Airlines (VJET) is soaring: Since going public in June, 1994, its shares have rocketed from 6¾ to 46½. Predictably, some investors are getting edgy. Is it time to bail out?

Not by a long shot, say the pros who are still accumulating shares. ValuJet's success in the low-fare, short-haul business, says one hedge-fund manager, has attracted the big airlines—which have failed in such markets. So ValuJet, whether management likes it or not, is a "very attractive target for takeover or merger," he adds. The stock, he believes, is cheap at this price, thanks to its fast growth, and could be worth 60 in a merger. From its Atlanta hub, ValuJet serves 25 cities in 17 states, and from Washington's Dulles, 10 cities in 5 states. On nearly all runs, it competes with Delta Air Lines. Another big rival is American—and Southwest is slated to enter some Florida markets next year.

ValuJet has told analysts and money managers it isn't for sale—in part because it's profitable enough to finance expansion. But you can't deny, argues the hedge-fund manager, that "it could be for sale at the right price."

With or without a takeover, the company is undervalued, many analysts maintain. "ValuJet is beating the pants off the rest of the industry," says investment manager Graham Tanaka. He's counting on ValuJet to enhance the gains of Tanaka Capital Management, whose portfolio has scored a heady 48.7% this year.

"ValuJet has exceeded all expectations," he says. Using refurbished DC-9s on no-frills flights at 40%-to-60% discounts through a ticketless reservation system, ValuJet has achieved load factors of 78%—vs. an industry average of 64%, notes Tanaka.

Since ValuJet started operations two years ago, analysts have raised earnings estimates several times to keep up with growth. "The profitability has been a result of a strategy to exploit a heretofore-ignored subset—customers who would probably not travel at all without the low fares," says analyst Vivian Lee of NatWest Securities. That's how it manages to thrive, she adds, in thinly traveled markets: Its formula is "limited-frequency service offering everyday low prices anchored by a low-cost structure."

Tanaka thinks ValuJet will beat conservative earnings estimates of $1.77 to $2.05 a share for 1995 and $2.14 to $3 for 1996. He figures the company will make $2.45 this year and $3.50 next.

THE GLOW OF HEALTH AT IVI

Shares of little-known IVI Publishing (IVIP) have been perky of late. Trading at 4½ in May, they are now at nearly 10. What's going on?

IVI, which puts out health and medical information in interactive multimedia formats, has caught the eye of AT&T. Soon, the phone giant will unveil an online consumer service in Boston. And IVI will be the major supplier of medical info for this venture. AT&T has an option to buy 20% of IVI.

IVI is the leading source of health and fitness materials on CD-ROM, with more than a dozen titles: Its *Mayo Clinic Family Health Book*, now in its second edition, has been a big seller. The company has digital-publishing licensing agreements with Mayo, *New England Journal of Medicine*, and Time-Life Books.

AT&T's online service is expected to produce a revenue stream for years for IVI. Analysts expect IVI revenues to double, to $20 million, in 1996—with the bulk of the funds coming from CD-ROM sales—and to double again in 1997. IVI plans to furnish online content to outfits such as HMOs for a monthly fee. IVI will also design and produce information—in such formats as video, animation, and illustration—for American Health Network, a cable channel set to premiere in March.

IVI should turn a profit for the time in the the first quarter of largely from CD-ROMs, says one m manager.

LIGHTS! CAMERA! RENTRAK!

Movie rental is alive and well. ask Ron Berger, chairman of trak (RENT), which distributes v cassettes, primarily to home-v stores. He has just bought 3 shares of Rentrak stock in the market at 6 a share, boosting his to nearly 5%.

Obviously, Berger believes it's v more. He agrees with the analysts value Rentrak at more than 1 promising source of growth, he sa a link with Wal-Mart Stores, in since early this year. The retailer to open 110 "supercenters"—coml grocery and general-merchan stores—where Rentrak will rent o cassettes.

Money manager David Klaskin, ident of Oak Ridge Investments, v manages some $130 million, says trak will be a substantial money m based on plans to widen its reach core business alone—called Pay Transaction—is worth 6 a shar figures. Under this PPT system, trak supplies videos to retailers and shares the revenue each time a cassette is rented. PPT lets the retailer obtain videos for less than if bought from conventional distributors. One big moviemaker whose films are distributed by Rentrak's PPT system is Disney, which has warrants for a 20% stake in Rentrak.

Rentrak's other ventures, says kin, are worth 4 to 5 a share, incl the movie business that will op at Wal-Mart and Pro Image, a apparel chain. Klaskin thinks B will take Pro Image public, whi says is worth $10 million to $15 m Rentrak also owns a 25% stake in trak Japan, which rents and sells movies.

GRATION

VE ME YOUR HUDDLED . . . GH-TECH PhDs

igh-skilled foreigners displacing U.S. workers?

rall, James L. hneider has en his busi- hich contracts nputer engi- o design and software sys- explode since founded in But for the ve years, his ancisco-based y, Profession- sulting Net- as been bat- brokers who foreign soft- ngineers into S. to do simi- k for as little ird of the $65-an-hour fee he . As a result, "American citizens on the street," he says. "In the itive world, it's difficult to bid people who work at substantial- r rates."

CHATTERJEE: *The native of India is a TI group president*

plaints such as Schneider's are an increasingly heated debate ether the many foreigners who o work in America's high-tech re displacing U.S. workers. The mmigrant pool is also raising ns about whether America nur- ough homegrown scientists and rs. Immigration foes say lax visa d bargain-hunting U.S. compa- to blame. But corporations, uni- s, and pro-immigrant groups in- t the U.S. doesn't have enough el talent to fill all the jobs, and int to deficiencies in education as a culprit. Even without conclusive evidence either way, say executives, limiting the flow of skilled workers could be dangerous. "We can cut off our immigration now, and blow away one of the best industries the U.S. has going for it," says David A. Pritchard, Microsoft Corp.'s recruiting director.

Congress may soon step in to settle the issue. To stem what many lawmakers see as a tide of foreigners, they are planning to cut the number of workers employers can sponsor. Proposals on the table by Senate Immigration Subcommittee Chairman Alan K. Simpson (R-Wyo.) chop the number to 75,000 from the current 140,000. Simpson, who is expected to introduce a bill in late October to restrict legal immigration, wants employers to pay extra for sponsoring immigrants. To get them permanent visas, companies would have to pay salaries 10% higher than those of U.S. workers. On top of that, they would have to kick in 30% of the new employee's annual compensation to a privately run fund for retraining Americans.

One problem is that few definitive studies exist. The Center for Immigration Studies, which wants limits on immigration, recently reported that 11.7% of America's scientists and engineers in 1990 were foreign-born professionals—naturalized U.S. citizens and foreign nationals. That's more than the total share of the U.S. population born abroad, at 7.9%. Moreover, the number of foreign science and engineering graduate students at U.S. universities has risen over the past decade—and many opt to stay here. The National Science Foundation, a neutral source, concurred, reporting that foreigners made up 49% of PhDs in computer science in 1993, up from 35.5% in 1983.

CUSTOM FIT. In theory, this explosion of foreign high-tech talent shouldn't be a threat to Americans. By law, employers can't petition for either temporary or permanent immigration visas for foreign workers if they can find a qualified U.S. citizen for the job. But it's widely known that employers often get Labor Dept. approval by tailoring job descriptions to a particular foreign candidate to make sure that no U.S. candidate can fill the slot. Bill E. Reed, president of the American Engineering Assn., cites a "help wanted" ad for someone with both a civil and an agricultural engineering degree, an unusual combination, "which only one person in the universe can fill," he says.

Despite anecdotal evidence of job displacement, it's still hard to pinpoint how widespread the problem is. The most well-documented abuses of the visa system occur in more routine software programming, where foreigners on so-called temporary H-1B visas clearly have undercut some U.S. engineers. In high-end research and development, however, foreigners with advanced degrees may be filling a niche that Americans can't.

It's no surprise that U.S. high-tech

NUES ENTRY

mmigrants ork in the ech sector

TEMPORARY WORKERS
Skilled workers can enter on H-1B visas for six-year maximum stays. The annual cap on such visas is 65,000. In fiscal year 1994, almost one-quarter of such visa requests were for computer-related workers.

FOREIGN STUDENTS
Foreign students from U.S. graduate programs are hired by U.S. employers, which then request permanent residency for them. There's no ceiling on student visas, but only 140,000 permanent visas a year are allowed for employer-sponsored immigrants.

DIRECT HIRES FROM ABROAD
Companies can petition to bring in permanent employees directly from foreign countries after demonstrating to the Labor Dept. that no U.S. citizen can do the job.

DATA: BUSINESS WEEK

24

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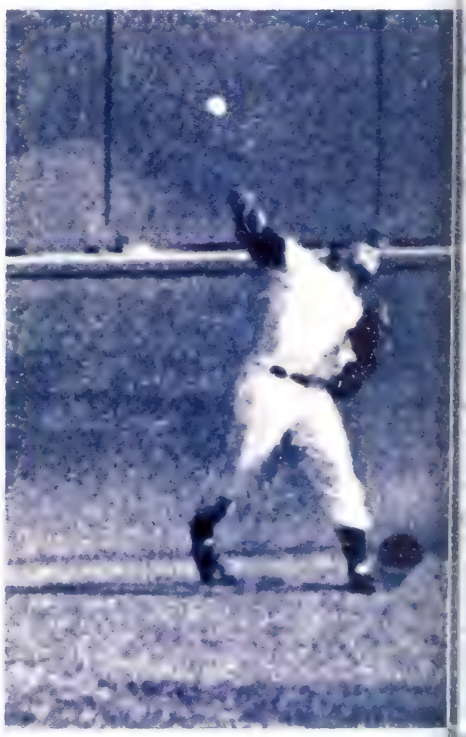
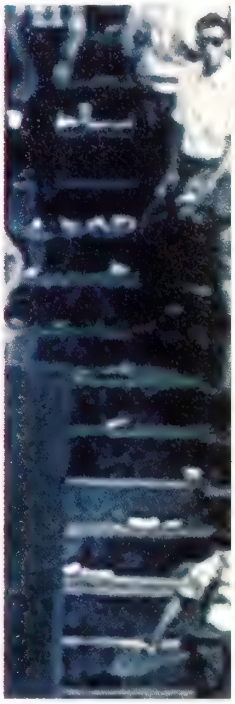


'hat If You'd Only Traded For

hat Willie Mays Rookie Card?



was the "Say Hey" Kid, with two National League MVP Awards. An amazing 660

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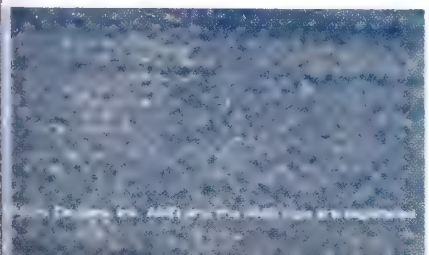
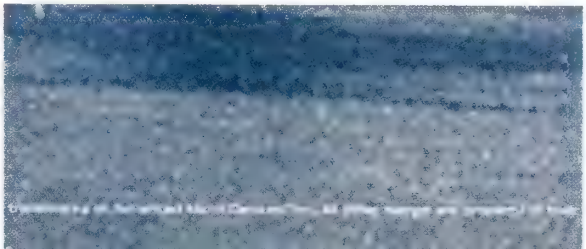



companies are in an uproar over efforts to limit the number of employer-sponsored immigrants. Executives at Microsoft, Intel, Sun Microsystems, and Texas Instruments say foreigners make up only 1% to 5% of their U. S. workforce. Often, foreigners are the only workers they can find at U. S. universities with the training for cutting-edge research. "One of the reasons Americans are not enrolling in science and technology programs is the weak preparation many students receive in math and science at the secondary level," says Todd M. Davis, research director at the Institute for International Education.

Pallab Chatterjee, who is the president of Texas Instruments Inc.'s calculator and personal notebook group, exemplifies the foreign-born high-tech success story. The 44-year-old electrical engineer, who was born in India, received a PhD from the University of Illinois at Champagne-Urbana, then joined TI's research unit in 1976. Chatterjee holds about 30 of TI's patents in microchip technology and in 1985 was elected a TI senior fellow. "We need to be able to compete with the best research minds in the world," says Chatterjee, who became a naturalized U. S. citizen on Oct. 13. "Our primary consideration is the capability of the researcher, not his country of origin."

NO LOVE FOR SCIENCE. For corporations, the more fundamental worry is Americans' seeming indifference toward higher education in science and engineering. Many Americans may not opt for graduate studies because they can get attractive salaries with just a bachelor's engineering degree or by going into law or business. And while there are companies that are investing in science and computer programs at all levels of schooling, "corporations alone aren't going to solve the problem," says Microsoft's Pritchard.

In the meantime, companies fear that if they don't hire foreign students, competitors in other countries will. Why not take advantage of America's strength as a magnet for talent? "If you want to contribute to the knowledge of computer design, there's only one country where it's leading-edge, and that's the U. S.," says Theo Omtzigt, a Dutch-born engineer at Intel Corp., who got his PhD from Yale University in 1992. With the ability to attract such experts, many U. S. high-tech companies have kept much of their workforce and R&D at home, while making about half their revenues abroad. The immigration debate may yet affect their easy access to scientific talent as the U. S. sorts out how its workers as well as its companies can compete in the global marketplace.

By Catherine Yang in Washington

MUSIC

CAN THIS MAN LIFT MOTOWN'S BLUES?

Andre Harrell must find hot new acts for a wide audie

FOCUS: *A cool $20 million awaits new CEO Harrell*

It is nearly noon when 35-year-old ex-rapper Andre Harrell shows up for his first day at the Wilshire Boulevard offices of Motown Record Co. Music executives are rarely early for anything, so Harrell is right in step. Looking relaxed and stylish in a white turtleneck, black slacks, and soft Italian loafers, Harrell has just spent the past three days jetting between New York, Miami, and Los Angeles to meet with singers Johnny Gill, Queen Latifah, and John Frankenheimer, Diana Ross's manager. This evening, he will entertain Motown great Stevie Wonder at dinner.

If the founder of tiny Uptown Records is daunted by the challenge of reviving the faded fortunes of the biggest brand name in music, he's not showing it. Only when he describes the two hours he spent the night before at Motown founder Berry Gordy Jr.'s five-acre Beverly Hills estate does he seem the least bit awestruck. "I mean, that was Berry the man who ed a legend," says. "He cre piece of Ar something t now my obliga build on."

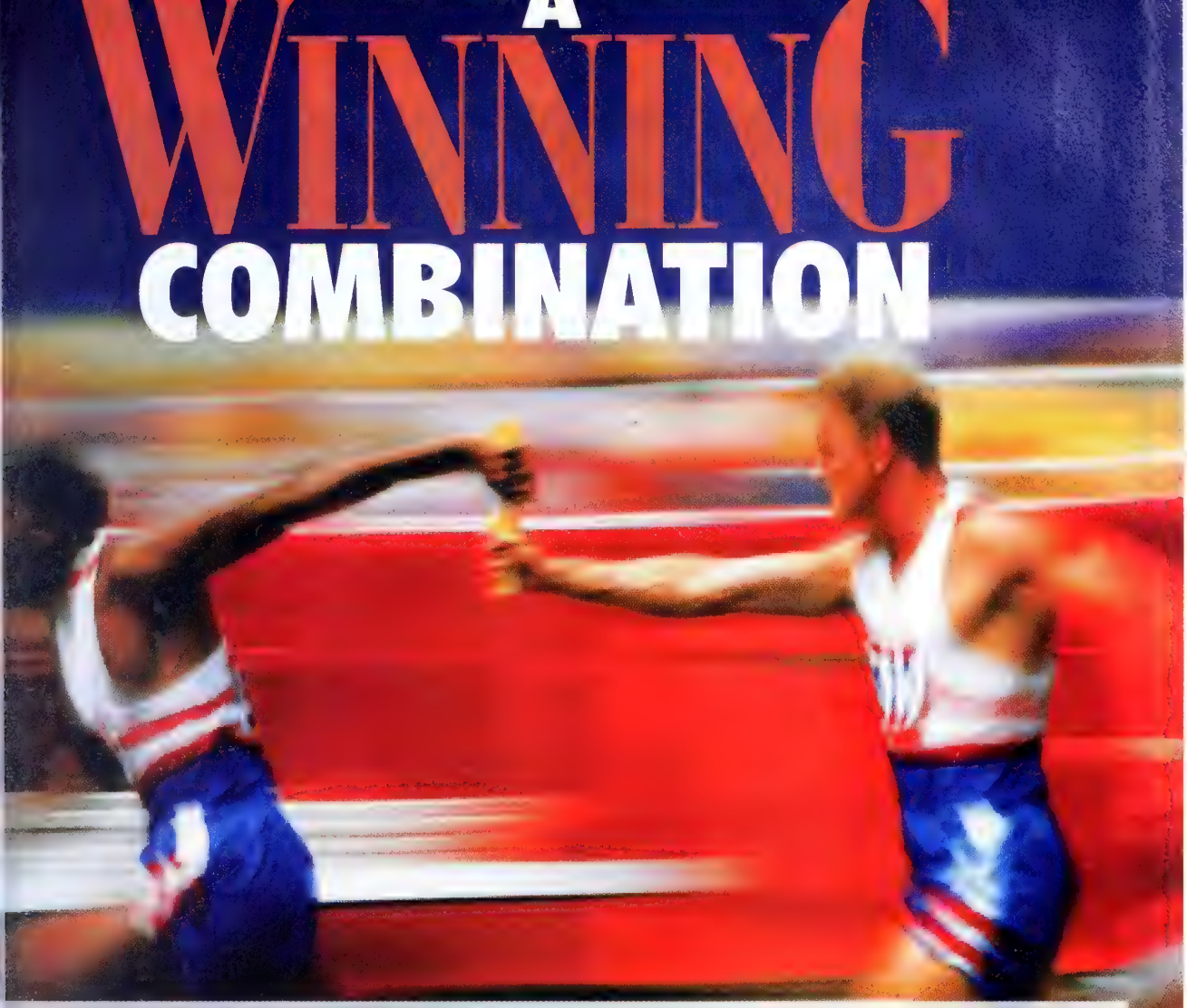
Harrell's gre bition is to b the Berry Go the 1990s—th man to p black music f widest possibl ence. Motown rell believes, the Disney music indus multimedia en ment empire b the strength rich, evocative name. His dr shared by Mo parent, Pol Holdings Inc.,

for two years has been frustra the label's clumsy attempts to into film and TV. On Oct. 2, Pol replaced former CEO Jheryl Bus Harrell, largely because Harrel town label was upstaging Motow such hot rhythm and blues st Mary J. Blige and Jodeci. Harrell a potential $20 million.

As the new boss takes over, t sure thing is that Motown is a lo from becoming another Magic Ki Some wonder whether Harrell's tion for picking hot acts veils his rience as an operator. "Andre is slinger," says one industry insid competing label. "He'll go out a you a hit artist, but he sure a has never run anything."

OLD R&B. Motown's glory days- it topped the charts with such stars as the Supremes and the T tions—are a fading memory. African American music market i inated by such new labels as

A WINNING COMBINATION



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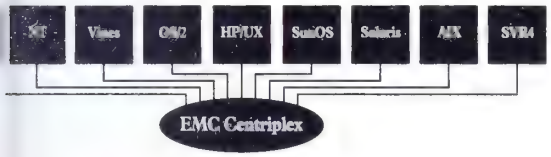

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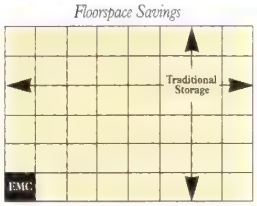

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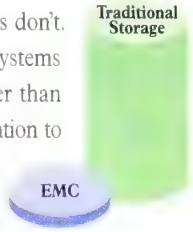

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scope and LaFace promoting streetwise acts such as Snoop Doggy Dog and TLC. Motown commands a bare 1.8% of the music market, according to SoundScan Inc., down from a peak of double-digit market share in the 1960s and 1970s.

The problem is that Motown has lost the pulse. In recent years it has broken only one superstar act—Boyz II Men—while it has spent heavily to promote such failures as Rosie Gaines and For Lovers Only. The label is living off its past: Over 40% of this year's expected sales of $105 million will come from its oldies catalog. Most labels consider 15% a big number for catalog sales.

HELP WANTED. "Motown has hardly been a bad investment for us," insists PolyGram CEO Alain M. Levy, who paid $325 million in cash and debt assumption for the label in 1993. But it has not been a good one, either. Insiders say Motown profits were off by nearly 20% this year. And Levy admits he's worried about the dearth of new acts. "We are O. K. now and maybe for the next year," he says. "But down the road, we're far less comfortable."

Harrell says his marching orders are: "go back to the streets," to find the next generation of black artists. "I'm from those neighborhoods," he says. "I can sit with them, their parents, their girlfriends." Beefing up a label's artist-acquisition prowess is at best an inexact science. But it begins and ends with hiring good people. Harrell's top priority is to fill Motown's top A&R (artists and repertory) position, which has been open for months. He'll also add a new marketing director. Meantime, he plans to open offices in New York and Atlanta—urban music hotbeds—and is considering moving headquarters to the Big Apple.

Harrell grew up in the South Bronx and was briefly a member of the rap duo Dr. Jekyll & Mr. Hyde. He launched his business career selling radio advertising but in 1983 joined Russell Simmons' Def Jam Records as a producer. Two years later he found his first star: a little-known rapper named Heavy D. By 1986 he had launched his own label, Uptown, which eschewed harder-edged "gangsta rap" for a more melodic sound that could sell in the su Acts such as Mary J. Blige, Jode Soul For Real became big hits.

For all his success, though, in insiders constantly debate whethe rell is really as good as his pres pings. He throws lots of partie cultivates the media. But critics that it was Harrell underlings, inc Sean "Puffy" Combs and Heavy I found many of Uptown's artists on his own at Motown. Moreover rell is known for spending lavis break his acts, running up bills fo and other luxuries, while oversp on videos.

In 1992, MCA bought Uptown signed Harrell to million developme whereby the label produce records b branch into black- ed films and TV. Th tionship soured over Harrell's checkbook policy. not help that Harr tempts to expand i (he produced the F ries *New York Un er*) were distractir from the record bu Then MCA balked Harrell petitione pany brass to tri 35-person staff.

Levy says he's aware of Ha free-spending ways but still wil bet big on him. Harrell's contrac pay him $20 million, Levy acknow if the Motown chief hits certai targets. In return, Levy will retai control. "We'd be idiots if we know all about Andre's reput Levy says. "His job is to find th ours is to give him boundaries."

For now, that means delaying h ney ambitions. Harrell and Lev have big multimedia dreams, bu both insist records come first. Busby's seven years at Motow company launched an interactive division, began printing Motow ics, and licensed its name for a st Motown Cafes. Busby admits he ist development deteriorate badl

The plan now is to scale back efforts and find some big acts to Motown forward. "None of that stuff means anything unless you'r ing the music," says Harrell sounds a lot like Berry Gordy. Bu rell still has plenty to prove bef Motown looks like the Motown c

By Ronald Grover in Los A

HARRELL'S PLANS FOR MOTOWN

- ▶ Lure more hip, urban artists to Motown to reduce dependence on catalog of old hits
- ▶ Improve Motown corporate morale, beef up depleted marketing unit
- ▶ Expand Motown unit to make movies, TV shows
- ▶ Decide fate of recent diversifications, including units to make interactive games and MoJazz

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INVESTIGATIONS

STATIC IN CINCINNATI

Did CMI mislead investors about the cordless phone maker's financial health?

ROBINSON: *The former GE exec bet heavily on a cordless phone launched*

Jacques A. Robinson, president and CEO of Cincinnati Microwave Inc., knows the importance of burnishing the corporate image. Back in 1993, cash was so tight at his troubled company that employees occasionally had to bring their own toilet paper to the office. Yet on one spring day, employees watched with surprise as Robinson and his wife boarded a rented luxury bus with key customers and took off for a couple of days at the Kentucky Derby. The $10,000 to $15,000 tab was picked up by CMI. Two top-ranking company executives say Robinson told them that CMI needed to keep up appearances or the company was sunk.

Robinson denies making such a statement. But now, numerous former executives at the company allege that CMI may have gone much further to spruce up its public image. In a runup to CMI's successful $18 a share secondary offering in August, the company's stock skyrocketed from 3 to a high of 21¼, amid optimistic pronouncements by the company and analysts that a turnaround was under way. The company said the sharp losses it suffered in 1994 were largely the result of a one-time problem beyond its control—a worldwide shortage of a critical component for its cordless phones. But numerous former senior and midlevel CMI executives say the company used the shortage to disguise far more extensive problems in its design, procurement, and manufacturing than it was disclosing.

Robinson dismisses such allegations as "complete and utter nonsense." And he has the backing of some big investors. "We continue to believe in the long-term potential of the company," says LeRoy C. Kopp, president of Kopp Investment Advisors Inc. in Edina, Minn., CMI's largest outside shareholder.

NEW SKEPTICISM. But others appear unimpressed. The controversy—together with CMI's Oct. 13 announcement of anticipated third-quarter losses—has sent the stock below 7. On Oct. 18, two shareholder class actions were filed alleging that CMI failed to disclose problems at the time of the offering. And the only two analysts who actively follow the company—Montgomery Securities Corp.'s Matthew S. Robison and Roney & Co.'s Stephen Roberts—have suddenly grown skeptical. Both analysts dropped their buy recommendations after the Oct. 13 announcement.

CMI was once a promising company. It was founded in 1976 by James L. Jaeger, today the hands-off chairman. Jaeger declined to be interviewed. Largely on the strength popular Escort radar detector, c joyed strong growth until a rash price competitors hit the marke company has been in the red since losing a total of $38.2 million.

Enter Robinson, 48, a chemica neer and former General Electr executive whom Jaeger recruit 1991. A turnaround specialist worked under GE CEO Jack F. Wel Robinson has shored up the ba sheet and lessened dependence on detectors. His goal: to use CMI's tise in wireless technology to h into modems and cordless phones

But with modems yet to pi steam, Robinson has banked CM ture for now on a hot new co phone launched in 1993. CMI sa phone, retailing for around $279, p es no static, greater range than tional cordless phones—and is drop-proof. A co Robinson proj early last year phone sales help return c profitability in 19

Midway th 1994, however ran into major duction problem press releases,

> CMI's stock, around 21 in August, has fallen below 7 in the wake of controversy

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rities & Exchange Commission filings, and meetings with investors, CMI blamed the problems on a "worldwide shortage" of a tiny 14¢ inductor, a key electronic component. The inability to get inductors, Robinson says, brought "our phone production to its knees." As a result, CMI lost phone sales worth $9.5 million in the third quarter. On 1994 sales of $64.7 million, CMI lost $10.3 million.

Today, Robinson says CMI has taken steps to "improve our materials and inventory management." And in a written statement, CMI makes clear where responsibility lies. Arguing that CMI's purchasing department "missed the boat" in 1994, the company has instigated many changes, including "replacement of ineffective personnel."

Industry sources concur that surging demand for inductors during that period did cause a temporary shortage. But numerous former CMI executives in manufacturing, marketing, and procurement allege that the lack of inductors was only one of a raft of problems CMI faced with its new phones. "The inductor issue was nothing more than a smoke screen cooked up by Jacques to hide the many other, more severe problems at the company," says a former procurement official who is among those the company has replaced.

"SCAPEGOAT." His view is seconded by numerous other top-ranking former executives who oversaw the design and manufacture of the phones—all of whom have since voluntarily left CMI. "Jacques used the inductor as a scapegoat," says one former officer. "We all had a good laugh when he pinned it on the inductor."

CMI's biggest problem, say several of those sources, was a design flaw that caused excessive static and limited the phone's range. "In August and September, approximately half of the phones built didn't work," says a high-ranking former manufacturing executive. Other sources, without knowing the precise amount, agree that large numbers of rejected phones were piling up. That in turn created huge procurement problems, say the sources, because CMI's buyers had to scramble to buy extra parts on short notice in order to make enough shippable phones. At the same time, significant difficulties with inventory controls meant other parts were frequently missing. Numerous former executives, including some who oversaw daily phone production, indicate such problems shut down production more often than missing inductors. The company declines to comment on allegations involving design flaws, procurement lead times, or inventory controls.

Still, several sources say that CMI's inability to get inductors didn't stem from a shortage but from poor relations with Toko America Inc., its main supplier. Having experienced significant difficulties getting paid by CMI, Toko considered CMI a low-priority customer. "They screwed themselves," says Thomas Kons, Toko's Midwest salesman. "If they'd been on top of scheduling, paid their bills, and had good potential, Cincinnati Microwave would have gotten all the inductors they needed." CMI declined to comment on this allegation.

As CMI continued to have problems building the phones, its cash woes worsened; in December, 1994, a Price Waterhouse auditor's report raised doubts about whether the company could s vive. Price Waterhouse declined to ment. Roney & Co. agreed to a ri offering. Around the time Roney's diligence team arrived at CMI's h quarters, an impromptu noon mee was held in the office of Troy G the company's former treasurer. meeting included Gross, inductor b Jeanne Fisher, and Chief Operating ficer John Noland.

NUMBERS GAMES. Fisher was tol bring purchase orders for the induc to the meeting so they could be viewed. The reason? "Gross and No were sweating bullets," says a CMI cial who attended the meeting. "T were trying to figure out what w happen if Roney asked to see the p chase orders." That's because the p chase orders, with attached product schedules, showed that manufactur was demanding that the procurem department order parts with inadequ lead times. That could have revea the scramble imposed by the high jection rate and shown that bad sch uling made the inductor problem wo CMI declined to comment on charges, as did Noland through spokesman. Fisher resigned from in January, 1995. Gross denies suc meeting took place.

Roney's bankers declined to comm on whether they asked to see the p chase orders. But convinced that C 1994 losses stemmed only from a o time inductor shortage, Roney w ahead with a successful rights offer in late December at roughly $3.5 share. The deal netted $9.7 million a kept the company afloat.

In March, CMI inked a key deal

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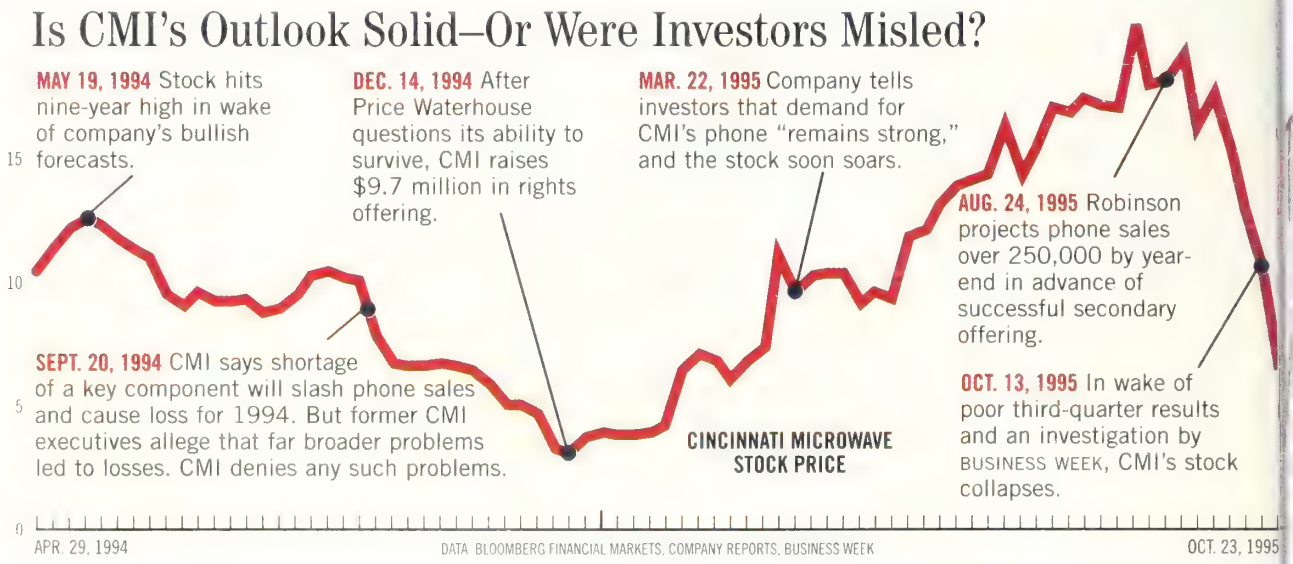

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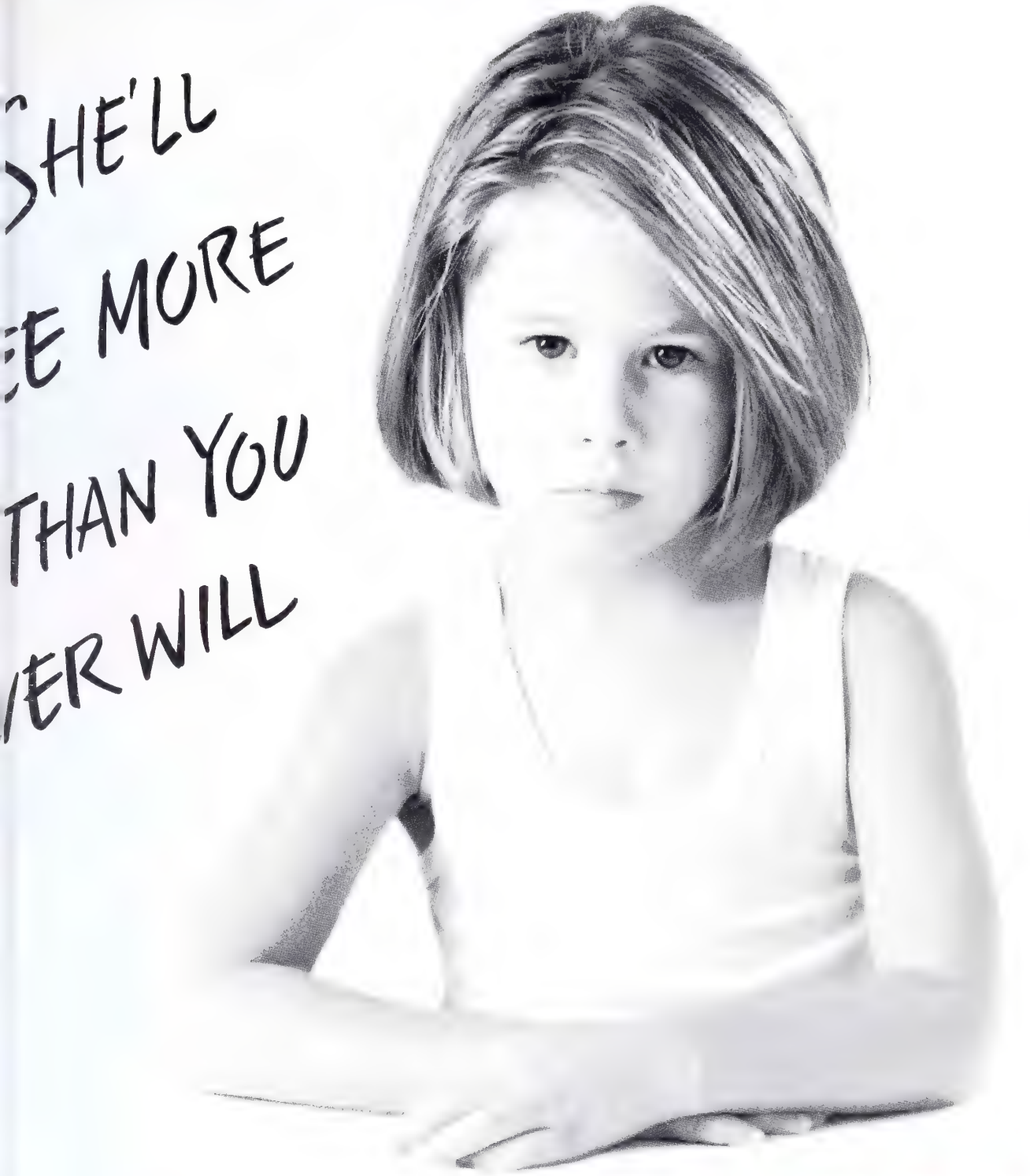

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sell its cordless phones to AT&T. Sol ter, Montgomery Securities and H agreed to underwrite a secondar fering. The sales projections giv Robinson to the investment ba called for upwards of 250,000 pho be sold in 1995, the bulk to AT&T. A alysts for both companies talked u stock, CMI shares took off. On Au the $18 a share secondary offerin million shares came off as pla Chairman Jaeger sold roughly ha holdings for $58.7 million, while the pany pocketed $19.1 million.

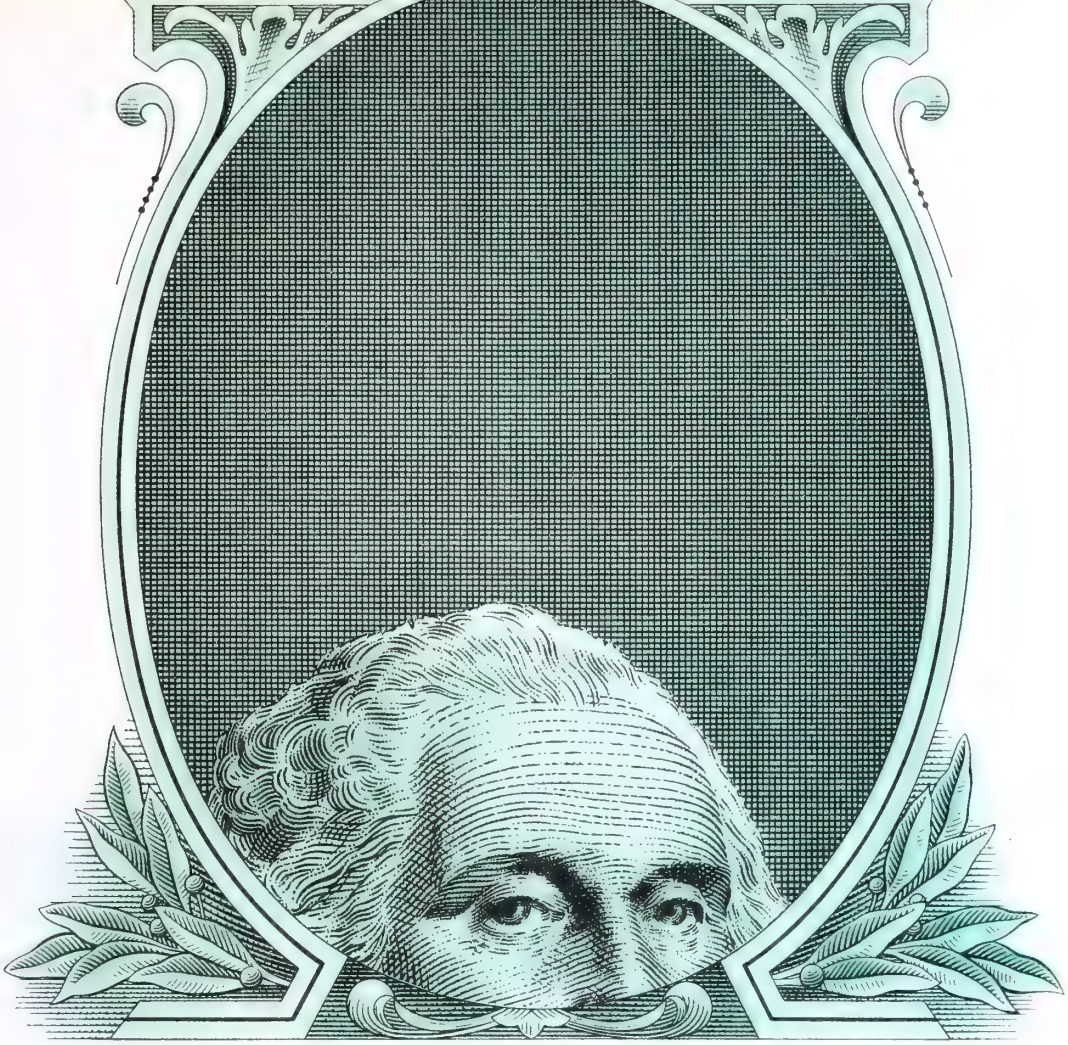
But internal projections prepar CMI's sales department under the tion of the former head of sales, Ga Oppito, called for total sales of s cantly fewer phones than Robinso projected. Several high-ranking fo CMI executives said Robinson pres Oppito and his staff to present a u front on sales. If the lower proje got out, it could have jeopardize secondary offering.

Robinson denies putting pressu Oppito. He says CMI's sales depart had a history of making lowball jections—and that he had worked ly enough with customers to de his own estimates. But actual sales in 1995's first three quarter only about 100,000. To meet Robin target, an additional 150,000 will to be sold in the fourth quarter—a of Oct. 20, according to one insider firmed orders through yearend just 85,000, while the manufact problems linger.

"UNCERTAINTY." In September, bo vestment houses said they had dence in CMI and in the inform that it supplied in connection wit offerings. "Given the company's hi and last year's significant losse did a very deep level of due dilig and we were comfortable with we heard," said George Vetter, aging director in Montgomery's in ment banking department. Added forth French Jr., senior vice-pres for Roney's corporate-finance "Jacques' story checked out." Bot vestment bankers have declined sequent comment in the wake o shareholder lawsuits.

Robinson continues his upbea sessment. In an October phone call analysts, he said that the compa on track to build and sell 150,000 p by yearend. Roney analyst Robert turned skeptical. "There's a lot o certainty; we need to see some a earnings," he says. Indeed, talking stock is one thing; delivering is an

By Willy Stern in New



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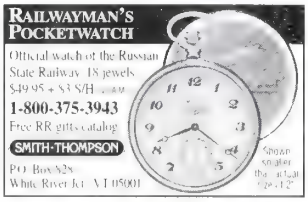

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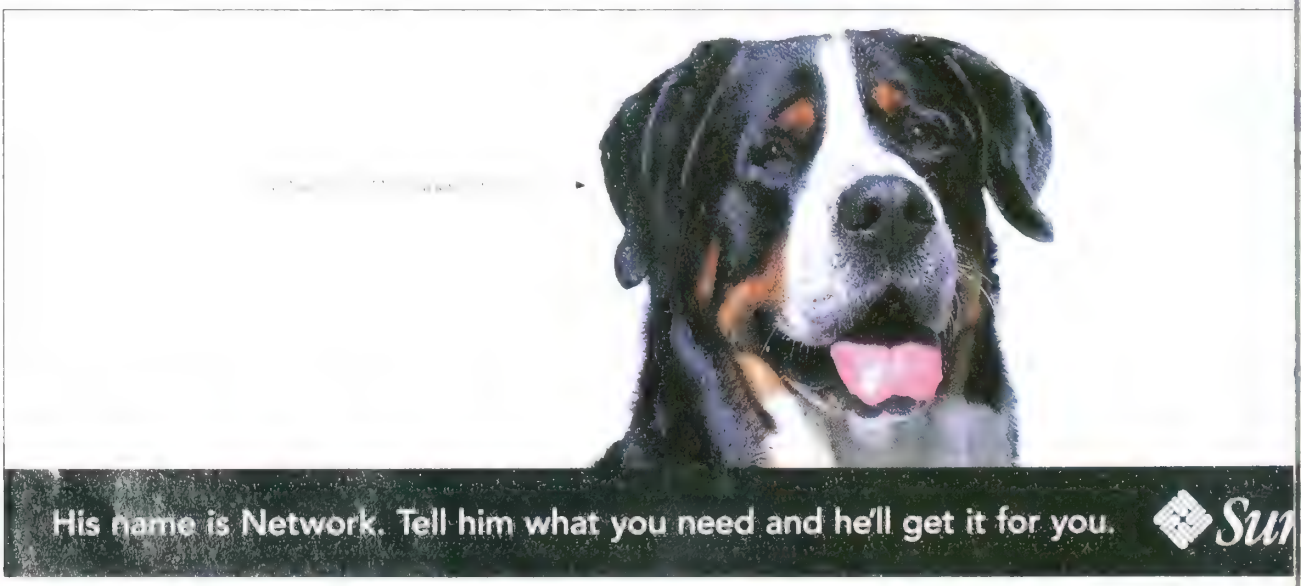

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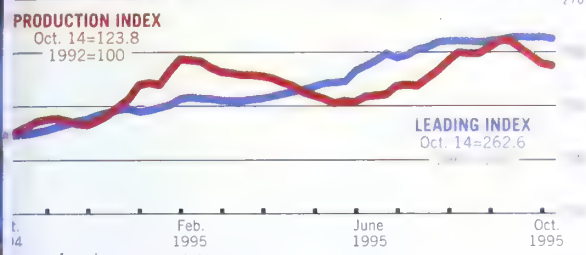

ces are 4-week moving averages

oduction index fell slightly during the week ended Oct. 14. Declines in ally adjusted output of electric power and steel led the weakness. calculation of the four-week moving average, the index edged up to from 123.6.

ading index also fell a bit in the latest week. The unaveraged index was hanged at 262.8, from 262.5 in the previous week. Only one indicator, ond yields, gave a positive sign for future economic growth.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (10/21) thous. of net tons	1,834	1,852#	-5.5
AUTOS (10/21) units	138,653	130,893r#	-1.6
TRUCKS (10/21) units	126,427	[illegible]	3.0
ELECTRIC POWER (10/21) millions of kilowatt-hrs.	57,046	57,917#	1.7
CRUDE-OIL REFINING (10/21) thous. of bbl./day	13,786	13,602#	0.7
COAL (10/14) thous. of net tons	20,675#	19,976	0.8
PAPERBOARD (10/14) thous. of tons	883.6#	868.9r	[illegible]
PAPER (10/14) thous. of tons	820.0#	828.0	-0.4
LUMBER (10/14) millions of ft.	464.7#	451.7	-3.2
RAIL FREIGHT (10/14) billions of ton-miles	25.8#	24.9	3.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (10/20) S&P 500	587.07	580.59	25.5
DRATE BOND YIELD, Aaa (10/20)	7.08%	7.14%	-17.1
TRIAL MATERIALS PRICES (10/20)	110.5	111.1	NA*
ESS FAILURES (10/13)	NA	NA	NA
ESTATE LOANS (10/11) billions	$501.7	$498.8r	11.8
Y SUPPLY, M2 (10/9) billions	$3,716.7	$3,722.0r	4.0
L CLAIMS, UNEMPLOYMENT (10/7) thous	356	343r	8.2

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (10/25) $/troy oz.	382.400	383.650	-1.9
STEEL SCRAP (10/24) #1 heavy, $/ton	140.50	140.50	5.2
COPPER (10/21) ¢/lb.	129.4	131.1	6.0
ALUMINUM (10/21) ¢/lb.	77.0	78.5	-9.4
COTTON (10/21) strict low middling 1-1/16 in., ¢/lb.	83.18	85.10	23.6
OIL (10/24) $/bbl.	17.58	17.64	0.5

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
IAL FUNDS (10/24)	5.70%	5.66%	4.72%
ERCIAL PAPER (10/24) 3-month	5.82	5.81	5.55
FICATES OF DEPOSIT (10/25) 3-month	5.80	5.77	5.56
MORTGAGE (10/20) 30-year	7.69	7.72	9.01
STABLE MORTGAGE (10/20) one-year	5.85	5.79	5.87
(10/25)	8.75	8.75	7.75

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (10/25)	101.24	100.66	97.02
GERMAN MARK (10/25)	1.39	1.42	1.50
BRITISH POUND (10/25)	1.58	1.57	1.64
FRENCH FRANC (10/25)	4.90	4.99	5.13
ITALIAN LIRA (10/25)	1615.5	1603.1	1533.3
CANADIAN DOLLAR (10/25)	1.37	1.34	1.35
MEXICAN PESO (10/25)	6.750	6.745	3.429

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

INAL INCOME

y, Oct. 30, 8:30 a.m. ▶ Personal e likely rose 0.5% in September, consumer spending was up 0.3%. are the median forecasts of econo- surveyed by MMS International, one of cGraw-Hill Cos. Incomes were flat in , while spending surged 1%.

YMENT COST INDEX

ay, Oct. 31, 8:30 a.m. ▶ Labor costs lian workers likely rose 0.7% in the uarter, the same as in the second.

IOME SALES

ay, Oct. 31, 10 a.m. ▶ The MMS sur- obably forecast that new single-family home sales stood at an annual rate of 713,000 in September. That's little changed from August's 710,000 pace.

CONSUMER CONFIDENCE

Tuesday, Oct. 31, 10 a.m. ▶ The Conference Board's index of consumer confidence probably increased to 98.7 in October, from 97.4 in September.

LEADING INDICATORS

Wednesday, Nov. 1, 8:30 a.m. ▶ The index of leading indicators was probably flat in September, after rising 0.2% in August. The report will be prepared by the Conference Board, which will take control of the index from the Commerce Dept. at yearend.

NAPM SURVEY

Wednesday, Nov. 1, 10 a.m. ▶ The National Association of Purchasing Management's business index likely stood at 49.5% in October, up from 48.3% in September.

CONSTRUCTION SPENDING

Wednesday, Nov. 1, 10 a.m. ▶ Construction spending probably jumped 0.6% in September, after falling 0.2% in August.

EMPLOYMENT

Friday, Nov. 3, 8:30 a.m. ▶ The MMS survey projects that nonfarm jobs rose by 125,000 in October, on par with the 121,000 gain in September. October's unemployment rate remained at 5.6%.

This Week, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Shopping for computer gear? Look at the first annual computer buying guide in this issue—and then talk about it with BW Senior Editor Geoff Lewis and Andrew Froning, managing editor of McGraw-Hill's National Software Testing Labs, which rated products for the guide. **Oct. 29 9 p.m. EST in the Globe**

Wednesday

Telecommuting is moving fast—will it help Americans balance work and family? Faith A. Wohl of the General Services Administration is spearheading this trend in the federal sector. Join her online with Amey Stone, small business editor of Business Week. **Nov. 1 8 p.m. EST in the Globe**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

AMERICA Online

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This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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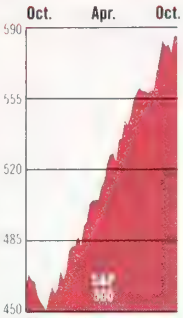
vestment Figures of the Week

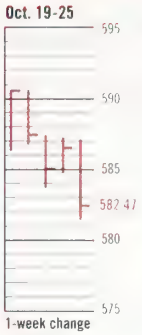
NTARY

Jones industrials broke barrier for the second sing at 4802 on Oct. 19—h anniversary of the 1987 rket crash. But the new not hold, even with a good earnings reports and lly favorable interest-rate ent. Financial stocks took gut, with the S&P Finan-ex plunging 6%. Foreign were losers as well. Cur-moil sent European stocks ımp. And the battered bolsa lost 5.4%.

STOCKS

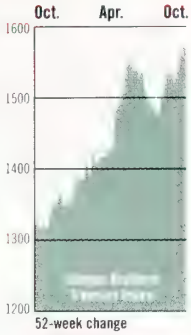


52-week change
+25.9%

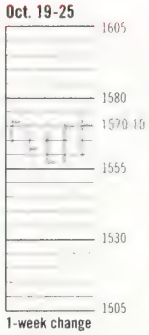


1-week change
-0.8%

BONDS

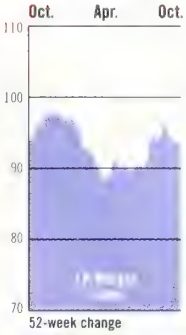


52-week change
+19.0%

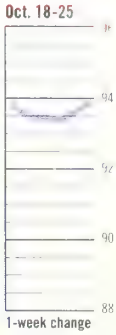


1-week change
+0.2%

THE DOLLAR



52-week change
+0.1%



1-week change
+0.1%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	4753.7	-0.5	23.5
COMPANIES (S&P MidCap Index)	210.4	-2.6	21.8
OMPANIES (Russell 2000)	297.8	-2.0	18.7
PANIES (Russell 3000)	333.5	-1.3	25.6

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3537.8	-1.5	17.9
IKKEI INDEX)	17970.8	0.4	-9.0
(TSE COMPOSITE)	4331.5	-3.5	1.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.38%	5.41%	5.10%
30-YEAR TREASURY BOND YIELD	6.32%	6.33%	8.06%
S&P 500 DIVIDEND YIELD	2.35%	2.32%	2.81%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.7	17.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	530.9	527.7	Positive
Stocks above 200-day moving average	65.0%	67.0%r	Neutral
Speculative sentiment: Put/call ratio	0.54	0.62 r	Neutral
Insider sentiment: Vickers sell/buy ratio	2.58	2.55	Negative

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
	15.2	-4.3	U.S. HEALTHCARE	17.9	-16.0	39 1/2
NSE ELECTRONICS	9.7	58.2	LORAL	12.7	55.6	31 1/8
OGRAPHY/IMAGING	9.5	32.9	EASTMAN KODAK	9.7	33.8	63 7/8
EHOLD PRODUCTS	9.0	34.3	KIMBERLY-CLARK	9.5	42.7	72 1/4
UTER SYSTEMS	8.8	39.4	DIGITAL EQUIPMENT	37.9	76.5	53 5/8

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
R CONTAINERS	-11.3	-3.2	STONE CONTAINER	-17.0	-5.0	16 1/2
XPLORATION AND PRODUCTION	-10.8	-5.7	BURLINGTON RESOURCES	-11.2	-7.1	35 7/8
INE TOOLS	-10.7	1.8	CINCINNATI MILACRON	-13.4	-1.9	25 7/8
RAL MERCHANDISE CHAINS	-10.6	0.8	KMART	-32.5	-36.4	9 7/8
MINING	-10.1	-11.8	ECHO BAY MINES	-16.5	-30.0	9 3/16

UAL FUNDS

MORNINGSTAR, INC.

TS

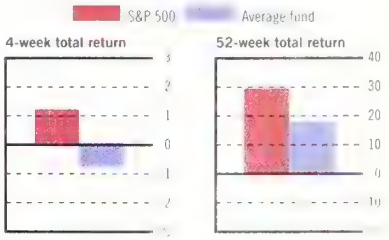
ek total return	%
FUS EDISON ELECTRIC INDEX	6.9
URG PINCUS ADVISOR JAPAN OTC	6.5
IELLO-RUSHMORE UTILITY INCOME	6.3

total return	%
ITY SELECT ELECTRONICS	89.9
R CAPITAL APPRECIATION	76.7
ITY SELECT COMPUTERS	73.9

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-MEXICO	-15.4
UNITED SERVICES GOLD	-12.1
MFS GOLD & NATURAL RESOURCES B	-11.3

52-week total return	%
WRIGHT EQUIFUND-MEXICO	-56.9
BT INVESTMENT LATIN AMERICAN EQUITY	-39.3
MERRILL LYNCH LATIN AMERICAN C	-38.1



ATIVE PORTFOLIOS

mounts represent the value of $10,000 f one year ago portfolio

tages indicate / total returns

Treasury bonds	U.S. stocks	Foreign stocks	Money market fund	Gold
$13,213	$13,010	$10,939	$10,552	$9,872
-0.19%	-0.04%	-0.22%	+0.12%	-0.23%

on this page are as of market close Wednesday, Oct. 25, 1995, unless otherwise in-Industry groups include S&P 500 companies only; performance and share prices are as of market close Oct. 24. Mutual fund returns are as of Oct. 20. Relative portfolios are valued as of Oct. 24. A more detailed explanation of this page is available on request. r=revised

HYPOCRISY WAS LEFT UNTOUCHED

All right, we admit to being confused. We, along with just about everyone else in this country, would like to cut government spending and taxes. But the rhetoric from Washington is befuddling us. Listening to the debate in Congress, it appears that there are "good" tax cuts and "bad" tax cuts, "good" spending cuts and "bad" spending cuts.

Let's see, government spending on welfare moms is bad because it increases their dependency, but putting taxpayer dollars into farmers' pockets is good because it preserves a great way of life. The Earned Income Tax Credit (EITC), a tax break for the working poor, is bad because it is "welfare" and that's nasty, but tax breaks on inheritance for small businesses is good because it helps the children of entrepreneurs get what they didn't create. Hmmm.

Medicare spending is bad because the nation can't afford so much of it. The solution is to trim funding and move elders into private, competitive, and less costly health-maintenance organizations. But subsidizing ranchers, miners, and timber cutters using federal land with more government money is good because competition would destroy jobs and ruin a great way of life out west. O. K., we're beginning to ge gist of this thing.

Congress wants to end social welfare because it is m bad and financially irresponsible, but maintaining corp welfare for oil drillers, ethanol producers, cotton gro rural utility electricity suppliers, shipbuilders, and comm broadcasters is just fine.

The truth is, this is the most special interest-driven gress in many a decade. The Democrats made no about transferring lots of taxpayer dollars to their own stituencies. But the new Republican freshman class vow end that kind of thing. Instead, it just came up with a list of political winners and losers. The working poor, tionally part of the Democratic coalition, are on the v side of the list. Even Ronald Reagan called the EITC "the antipoverty, the best pro-family, the best job-creation me to come out of Congress." Not this Congress. It is one to run on a platform of curbing all government entitleme everyone and another simply to cut them only for you litical enemies.

A BUDGET FINALE MINUS THE HYSTERICS

Enough with the budget debate! The Republican Congress is about to send the Democratic President a reconciliation bill that he is sure to veto. Great outrage will be expressed at the calumny and treachery of each side. The specter of a terrible default on the national debt will be raised. Please. Spare us the posturing.

The truth is, the budget "crisis" is over. Clinton has lurched strongly over to the Republican side, accepting among other things a budget that balances in seven years, not nine, and a fat middle-class tax cut. Both sides are so close they could do a deal tomorrow over a nice working lunch, instead of a theatrical Thanksgiving "summit." The Sturm und Drang is simply the parties' posturing for the 1996 Presidential campaign.

Here's how to do a budget compromise without the hysterics. Medicare: Republicans want to cut $270 billion over seven years. Clinton wants to cut only $140 billion. Both already agree on the key elements: to reduce what the government pays to doctors and hospitals, motivate seniors to shift to private HMOs, and increase copayments for individuals. The Congressional Budget Office believes that these three programs will save $185 billion—a perfect compromise figure.

Taxes: Both sides agree on a $500 per child tax credit, even though boosting consumption rather than investment isn't very good tax policy. Senate Republicans have already dropped the eligibility level from $200,000 to $110,000. Clinton wants the eligibility set at $75,000. Split the difference. The Democrats want to retain the Earned Income Tax Credit, and the Senate Republicans want to exclude half of all capital gains from tax. Both are good policies. With just a wiggling, both sides can be accommodated.

Spending: Here, basic differences remain. Clinton war preserve government programs to develop new technol encourage government service through AmeriCorps, ar crease job skills by spending on training and education publicans don't, on philosophical grounds. But the prog cost relatively little—$10 billion over seven years, w $12 trillion of budgets. Giving in on this would be a price for the Republicans to pay for Clinton's budget from nine years to seven.

A legitimate way to grease the slide toward comprom to bring the inflation and economic assumptions behin budgets into reality. The White House has a slightly h growth rate built into its budget, generating a lot more enue for the government. Given all the productivity grow the past few years, shifting the assumption a bit higher is nomically reasonable. It would be equally legitimate to r the consumer price index and cut it by about ½% to reflec true underlying inflation rate in the U. S. That would boost revenues and cut spending, paving the way for a

All this could be done quickly and efficiently. That wou low politicians to address the next budget issue: The bu deal is being structured so that the tough cuts in spendin backloaded to later in the decade. This will make the a ment vulnerable to political pressures in 1997 and 19 should there be a recession. At that time, will the nat politicians stand firm?

S WEEK
vember 13

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BusinessWeek

MBER 13, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

MEXICO

The Rough Road Back

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FUJITSU

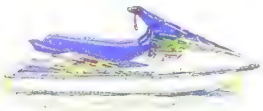
COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Inertia. Gravi
These Things Me

A

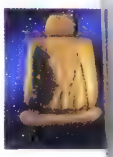
Until recently, fundamental geometry forced suspension engineers to choose between a ride that was soft and stable (see figure A), or one that was quick and nimble (see figure B).

Our engineers didn't accept this. So they designed internal rebound springs, as well as an optional electronic air suspension, which employs advanced g sensors. This allows a car to be smooth when you want it to be and responsive when you need it to be. This superb system is available on the IS 400 (see your Lexus dealer).



B

Floating panels in the front seats, supported by coil and tension springs, act as a suspension system to help stabilize movement during cornering. Of course, sitting is believing.



Inertia is the tendency of a body in motion to stay in motion unless acted upon by an outside force, such as wind. Consequently, you'd expect a full-sized luxury sedan, with its greater surface area, to be significantly slowed down by the wind. Then how would Sir Isaac Newton explain that the most aerodynamic car sold in America is the LS 400?

Many body components are comprised of high-tensile steel, a strong but light material known for its energy-absorbing properties. While this may seem like a contradiction in terms, it's a great comfort should you find yourself in an accident.

ntrifugal Force.
othing To Our Engineers.

While it stands to reason that all automobiles are subject to the physical laws of nature, the LS 400 ppears to have been singularly exempted. Perhaps this is due to the tireless efforts of Lexus engineers who, another anomaly of nature, seem to have been blessed with a limit-ss supply of energy and ideas. *It's engineering according to the laws of Lexus.*

LEXUS
The Relentless Pursuit Of Perfection.

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HELLO, MA BELL

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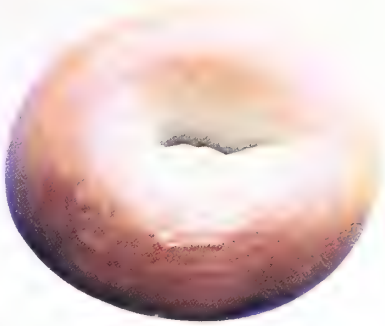

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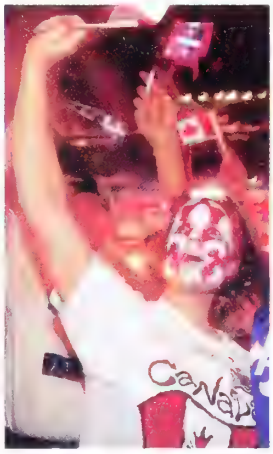

A LITTLE LESS OOMPH

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new breed of Dems will run in '96

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Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

I-WAY PATROL

SOFTWARE MAKER, ANYONE? NO?

WORDPERFECT: WHO WILL BUY it? Potential buyers are treating the once popular word processing software maker like the leisure suit of the high-tech world. Novell, which picked up WordPerfect for $855 million in stock just 16 months ago, announced Oct. 30 that it wanted to shed most of the new acquisition so it could focus on networking software.

Novell executives say they have two potential suitors, which perplexes analysts. Most rumored candidates say they have zip interest. Insiders at Oracle, for example, say they're targeting the Internet—not stand-alone PC applications à la WordPerfect. Computer Associates insiders also pooh-pooh a deal, preferring to concentrate on high-end databases. And IBM? Officials say they have no interest. Analysts doubt there will be a marriage, given Big Blue's acquiring Lotus, which includes a software package rivaling WordPerfect's.

At least WordPerfect seems to be cheap, which could help ease a sale. Analysts' estimate: about the same as revenues, or about $300 million. Company sales chief Joe Marengi does not dismiss rumors of an investment group, perhaps of venture capitalists, taking over and shaving jobs. He rules out—for now—an employee buyout.

Plagued by late products, the unprofitable WordPerfect is in neck-and-neck competition for word processing with Microsoft Word. Yet in the increasingly hot suite market (bundled office software), Microsoft has a big lead over WordPerfect. *Kathy Rebello*

THE LIST REACHING FOR THE STARS

For networks, putting up a promising new show to knock off a rival's established hit has long been an iffy business. This season, ABC is running its critically acclaimed new series, *Murder One*, in the Thursday slot opposite NBC's reigning ratings champ, *ER*. So far, *ER*, starring Anthony Edwards, is still No. 1; the crime show, No. 51. But in the past, some feisty newcomers have dislodged entrenched hits: Bill Cosby squelched *Magnum, P. I.* in 1984-85.

VITAL SIGNS: *ER's Edwards*

MIXED RECORD FOR PRIME-TIME UPSTARTS

SEASON	ESTABLISHED HIT	CHALLENGER	OUTCOME
1950–51	*Your Show of Shows* (NBC)	*The Frank Sinatra Show* (CBS)	Old Blue Eyes flops vs. No. 3 Sid Caesar
1963–64	*Bonanza* (NBC)	*The Judy Garland Show* (CBS)	Legendary singer fails against No. 2-rated Western
1967–68	*Bonanza* (NBC)	*The Smothers Bros. Comedy Hour* (CBS)	Comedians, at No. 18, drop Cartwrights to 6
1972–73	*The Flip Wilson Show* (NBC)	*The Waltons* (CBS)	Comic dips from No. 2 to 12 with John Boy at 20
[illegible]-85	*Magnum, P.I.* (CBS)	*The Cosby Show* (NBC)	Cos soars to No. 3 as Magnum slides from 6 to 15

DATA: MUSEUM OF TELEVISION AND RADIO, *TOTAL TELEVISION*

TALK SHOW "Republicans would walk out in droves fr[illegible] that convention.... You cannot impose a Colin Powell age[illegible] on a Ronald Reagan-Pat Buchanan-Newt Gingrich party."

—GOP Presidential hopeful Pat Buchanan

HEAD START: *Ven[illegible] could see red tap[illegible]*

FRIENDLY FIRE

THE GOP'S BAD NEWS FOR MAIN STREET

EFFORTS ON CAPITOL HILL TO curb political activities of nonprofit groups may mean more red tape for their suppliers. A GOP bill would ban lobbying by some nonprofits that receive federal grants. Chief target: liberal advocacy outfits such as the American Association of Retired Persons. Yet the measure also would bar nonprofits from spending grant funds on vendors who use more than 15[illegible] their expenses on [illegible]litical advocacy."

That could [illegible] the local grocer [illegible] supplies a Head S[illegible] program or the [illegible] computer company ped[illegible] machines to a college. [illegible] prove they're eligible to [illegible] business with a nonprofit [illegible] charged these vendors m[illegible] have to keep track of t[illegible] spending on loads of iten[illegible] from lawsuits against gov[illegible]ment agencies to appearan[illegible] before local zoning boards.

But sponsor Represen[illegible]tive Ernest Istook [illegible] (R-Okla.) dismisses the [illegible]jections as alarmist. The c[illegible]troversial legislation, [illegible] amendment to an approp[illegible]tions bill, is pending befor[illegible] House-Senate conferen[illegible] committee. *Susan Garla[illegible]*

NEW WORLD ORDER

FROM PLUTONIUM TO POGO STICKS

FOR DECADES, THE SECRET cities of the Soviet Union churned out weapons of mass destruction. Surrounded by barbed wire, unnoted on a map, these dozen cities sheltered the cream of Soviet scientific talent. But now, the cold war cities are going commercial. Their brain trusts held an international exhibition in Moscow recently, offering such diverse products as pogo sticks, pasteurizers, and jet-skis.

Cities that once produced uranium and plutonium for nuclear warheads are faring the best, because they have an assured cash flow to underwrite new business ventures. Since the Kremlin has slashed buying weapons-grade material, the produ[illegible]ers have switched to maki[illegible] lower-grade uranium for po[illegible]er plants in the U.S. a[illegible] elsewhere. This nuclear [illegible] come allowed a factory in Z[illegible]lenogorsk to spend $200 m[illegible]lion on gear from German[illegible] BASF Group to manufactur[illegible] audio- and videocassettes.

The Wages of Peace

SECRET CITY	SOVIET PRODUCT	CURRENT PRODUCT
NOVOURALSK	URANIUM	CATALYTIC CONVERTERS
TRYOKHGORNII	WARHEADS	TELEPHONES
ZELENOGORSK	URANIUM	AUDIO- AND VIDEOCASSETTES
ZHELEZNOGORSK	PLUTONIUM	TELEVISIONS

DATA: BUSINESS WEEK

Although these cities, s[illegible] up by Joseph Stalin in th[illegible] 1940s and 1950s, still are u[illegible]der Russian Army guar[illegible] they no longer are secret. [illegible] number even have foreig[illegible] joint-venture partners, suc[illegible] as Nortel. *Patricia Kra[illegible]*

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Up Front

POTOMAC FERVOR

SO MUCH HOOEY ON THE HILL

HOUSE GOP ROOKIES are making plenty of preposterous pronouncements. Representative Fred Heineman (R-N.C.) recently rewrote economics textbooks by declaring that middle-class people earn between $300,000 and $750,000 a year. With a congressional salary and cop pensions totaling $180,000, the former Raleigh police chief placed himself in the lower-middle class. After Democrats ridiculed him, Heineman took to the House floor to insist his estimates "were accurate for me and others like me."

SOUDER: *Sorry about that*

Mark Souder (R-Ind.) ticked off colleagues by saying that cult leader David Koresh violated the law only by having sex "with consenting minors.... Do you send tanks and government troops into the large sections of Kentucky and Tennessee and other places where such things occur?" Souder, who holds Dan Quayle's old House seat, apologized after bipartisan howls of outrage.

Then there's Frank Cremeans (R-Ohio), opposing premarital sex because "marriage is a very sanctimonious commitment." During the 1994 campaign, he said AIDS was a possible explanation for the Roman Empire's fall.

It's always a problem adjusting to the spotlight, but gaffes are harder to find among freshman Democrats. One reason: GOP newcomers outnumber Dems by more than 5-1. *Richard S. Dunham*

DRAWN & QUARTERED

ON THE FUND FRONT

YOUR MONEY'S NO GOOD HERE

NO MORE INVESTORS, PLEASE, until January. And it's for their own good. A group of three mutual funds won't accept new accounts in November and December, since investors would get zapped by the tax collector. The trio, sponsored by the Markman Multi Fund Trust, only started Feb. 1, and the goodwill created by this gesture is meant to improve sales later.

The tax trap stems from distributions of dividends and capital gains made at yearend. Markman expects them to range from 5% to 10% of net asset value. Say you buy a fund for $10 a share in December. The next day, the fund distributes $1 of that to investors, and the price goes down to $9. You're stuck with the same tax liability as the investor who months ago bought at $7—and you may be better off waiting until January to buy at (assuming no big market moves) $9.

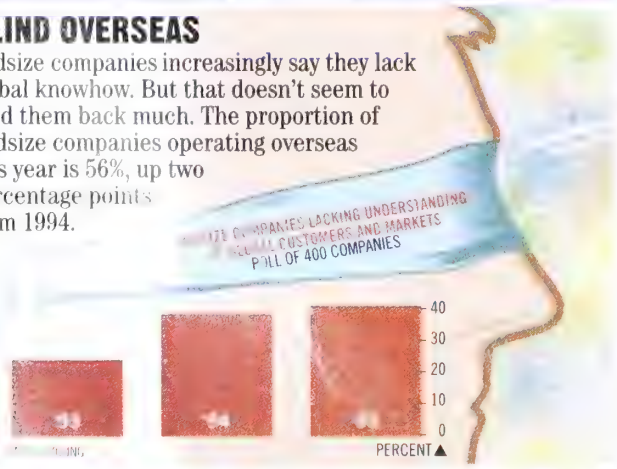
Minneapolis-based Markman's approach draws frowns from pros in the rest of the mutual-fund industry. They believe that investing for growth supersedes tax concerns that accountants can worry about.

Markman's threesome invests in other mutual funds, not stock directly. They're up 32% (Aggressive Growth Fund), 21.5% (Moderate Growth), and 15.5% (Conservative Growth) through Sept. 30. Markman isn't exactly turning away investment dollars, however. All yearend investments go into its money-market fund, then on Jan. 1 move to a reopened fund. *Sunita Wadekar Bhargava*

THE BIG PICTURE

BLIND OVERSEAS

Midsize companies increasingly say they lack global knowhow. But that doesn't seem to hold them back much. The proportion of midsize companies operating overseas this year is 56%, up two percentage points from 1994.



BALLPARK FIGURES

GO EAST, YOUNG MAN—AND LOSE

REAL OR NOT, THE HOME FIE advantage is one of the o est factors in sports. Now scientific study finds so truth to the adage, and f gers jet lag as a reason.

To best gauge the influen of long flights, the study, ported in the Oct. 19 *Natu* magazine, examines matchu between East and West Coa baseball teams for the 1991- seasons. When eastern tea went west, their hosts t umphed in 56% of the game But the easterners won 63 of home games against wes erners. In fact, East Coa

JET-LAGGED? *AL playoffs*

teams scored 1.24 more run at home against a western ri val than their normal showing

Lawrence Recht, a neurol ogist at the University o Massachusetts Medical Schoo at Worcester who did the study with two fellow physicians, isn't sure of the reaso for the difference. Yet Recht a baseball fan, suspects it doesn't matter in World Series and playoff games, because player motivation outweighs travel fatigue. □

FOOTNOTES Increases in health-insurance premiums vs. medical inflation: 1991, 11.5% vs. 9%; 1995, 2.1% vs. 4.6%

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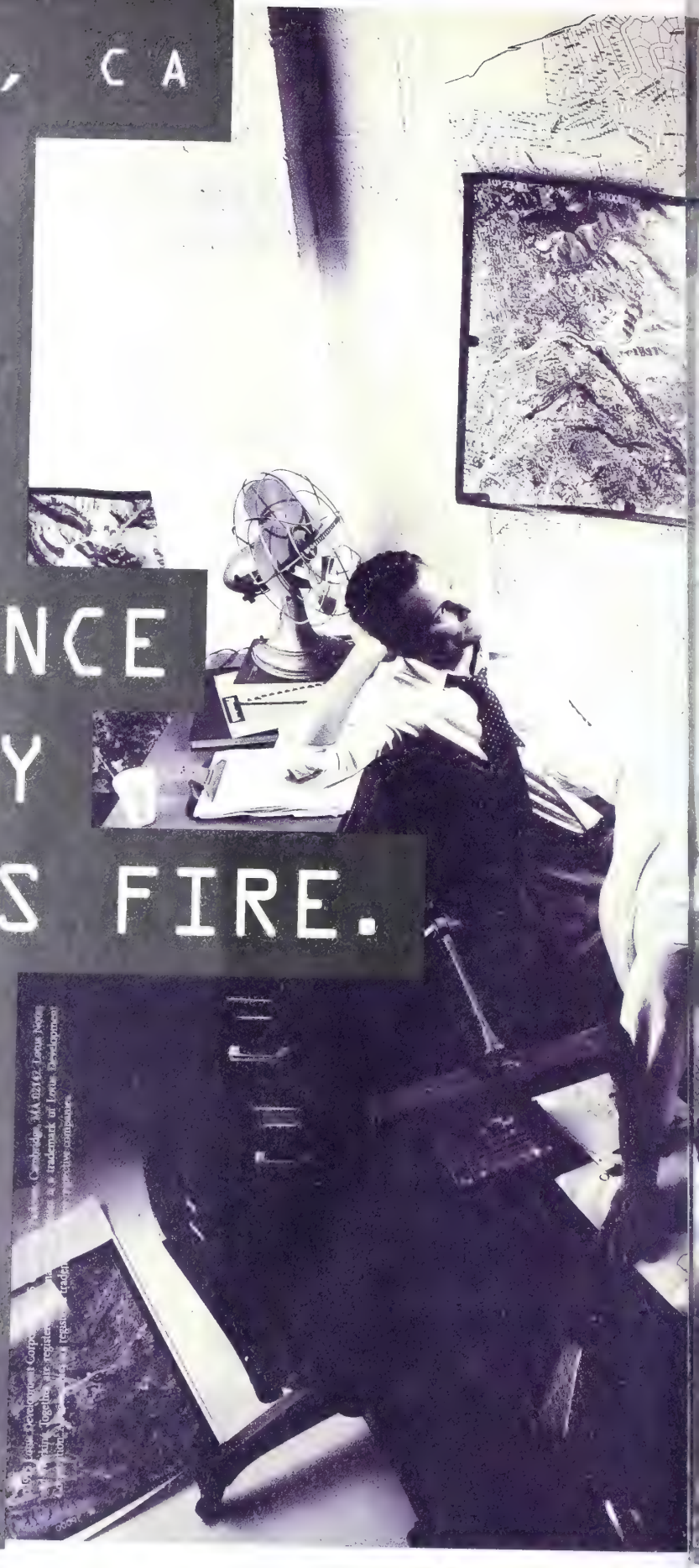

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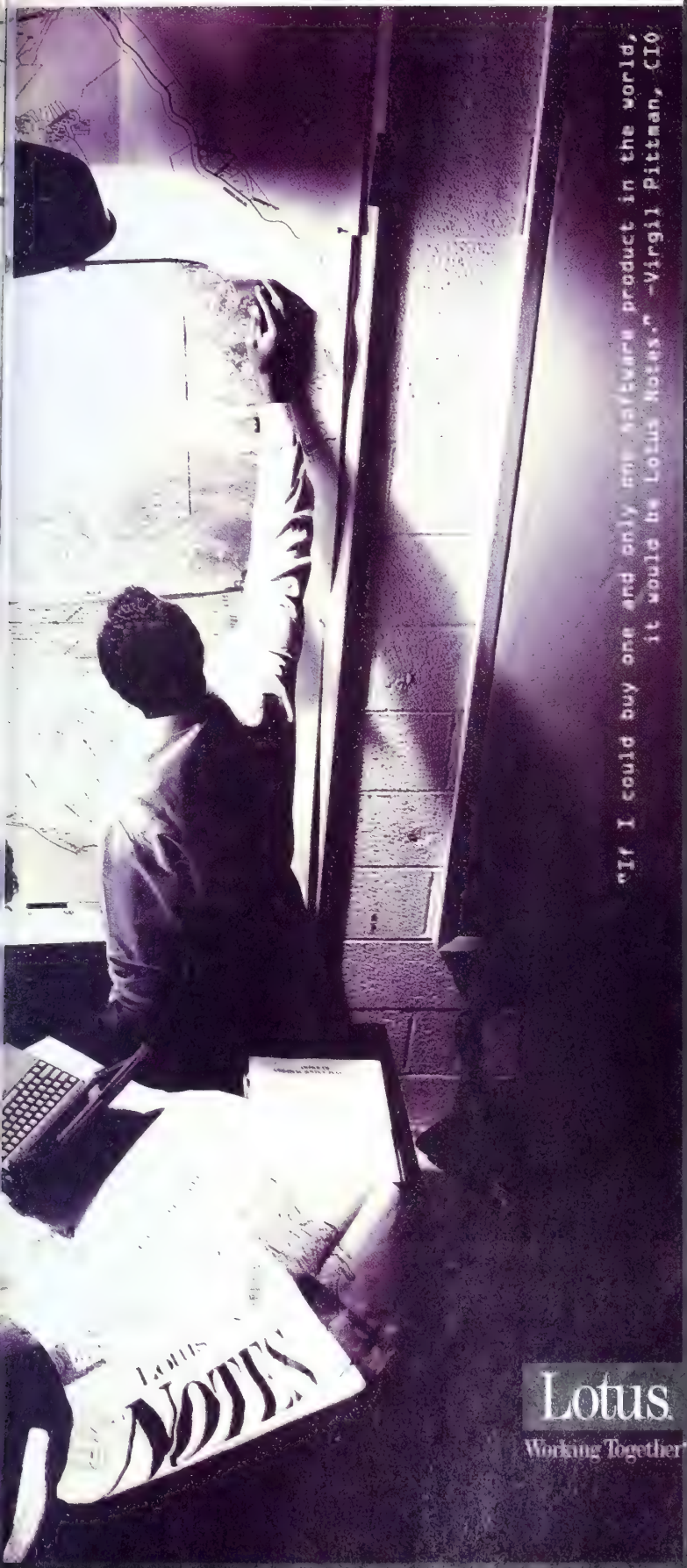

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Readers Report

BANKERS TRUST: JUDGE FEIKENS RESPONDS

Regarding your article "The Bankers Trust tapes" (Cover Story, Oct. 16), I recognize the concern that you have as to confidential sources of information. I understand the vital role that the media has in making information available publicly that would not otherwise come to public light.

My central concern is the overarching requirement that court orders be obeyed. The court order that was entered by the late Judge Carl B. Rubin required that all the documents obtained through the discovery process must be sealed and not publicly used until such use was court ordered. That order applied not only to Procter & Gamble Co. and Bankers Trust Co. It also applies to all other persons, organizations, and corporations.

When you obtained the sealed documents and sought to use them without court approval, you faced the real prospect of being in contempt of court. The fact that you did not publish evidences the point.

Recall that Justice John Paul Stevens observed that the manner in which the media comes into possession of the court-ordered sealed information may have a bearing on the media's right to publish it.

It became clear to me that you did not desire a hearing on how you obtained the sealed documents, undoubtedly because you could not show that you obtained them lawfully. After having been directed by two appellate courts, there was an evidentiary hearing in which it became abundantly clear that the sealed documents had been obtained and were ready to be used by you in violation of the court order.

That is the central issue in this case. When it was determined that you had obtained these documents unlawfully, the inevitable conclusion followed—you could not publish them. To do so would be to violate a court order which was in full force and effect.

My ruling stands foursquare for the proposition that court orders mus[t] obeyed. The First Amendment ca[n] be used to ignore court orders.

John Feik[ens]
U.S. District Ju[dge]
Det[roit]

Editor's note: BUSINESS WEEK *cont[ests] the judge's notion that the protective [or]der sealing the documents extende[d to] all organizations, including this ma[ga]zine. In addition, the evidence fully s[up]ports our position that we obtained [the] documents lawfully. These and ot[her] issues will be addressed in early [De]cember, when the U.S. Court of A[p]peals for the Sixth Circuit hears [the] appeal.*

CORRECTIONS & CLARIFICATION[S]

"Dining card savings—from hotels [to] haircuts" (Personal Business, Oct. [..]) should have reflected that Dining à la C[arte] offers discounts on restaurants in 20 [ma]jor metropolitan areas and bed-and-bre[ak]fast discounts in many of those marke[ts].

A DIFFERENT YARDSTICK FOR MONTGOMERY

While we appreciate the fact that t[he] results we have achieved for our c[li]ents and the growth we have expe[ri]enced have brought us to your atte[n]tion, we were disturbed to no[te] important inaccuracies in your arti[cle] "Montgomery: Too much, too soon?" (F[i]nance, Oct. 23).

The article maintains that Mon[t]gomery's average return on initial pu[b]lic offerings since 1990 is "only a litt[le] better" than the 63.5% return of t[he] Standard & Poor's 500-stock index du[r]ing the period. The correct calculatio[n] demonstrates that Montgomery's ave[r]age IPO return—77%—is triple the r[e]turn of the S&P—27%—during the tim[e] period BUSINESS WEEK cites.

You also relate that the Montgomer[y] Growth Fund's performance was "on[ly] 21% in 1994" but fail to note tha[t] it was the No. 1 growth fund in Amer[ica]

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Additionally, you disparage a con-
ence that you did not cover, quote
anonymous person who did not at-
d it, and refer to "brokers" who were
even invited to it.

Troubling as well is the article's impli-
ion that Montgomery paid "more
n $7 million plus stock and warrants"
class action legal settlements. In fact,
aggregate of all payments made by
in these cases since the firm was
nded more than 25 years ago is less
n $250,000; and then only where the
t of settlement was less than the an-
pated cost of defense.

Overall, this story does not support
thesis. Our true record on behalf of
clients is a far better measure of
success.

Thomas W. Weisel
Chairman & CEO
Montgomery Securities
San Francisco

*itor's note: While there was nothing
ccurate about the methodology that
SINESS WEEK used to compare Mont-
nery's IPO performance with the Stan-
rd & Poor's 500-stock index, we agree
it Weisel's approach is superior. Our
le, which mislabeled the time frame,
ted figures comparing IPO perfor-
nce through Oct. 9. Using that time
me (rather than the one cited in
isel's letter), the value of Mont-
mery's IPOs rose by 68%, according
Securities Data Corp., while the S&P
0 index increased 31.2%.*

*The $7 million-plus in stock and
rrants mentioned in our article re-
red to the total settlement with all
targets of the class actions, not just
ontgomery. BUSINESS WEEK did not
tend to imply that Montgomery had
id any specific amount to settle these
ses.*

Your article unfairly paints one of
merica's greatest entrepreneurial suc-
ss stories as a bunch of hot-money
wboys. Nothing could be further from
e truth.

Montgomery took our company public
ore than six years ago. Two of Mont-
omery's three bankers on our original
o team are still there, as is their na-
onally recognized analyst who follows
r sector. Not one of the 10 or more
her investment firms we have dealt
ith over the years could make a simi-
r claim.

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vo private companies that have em-
oyed Montgomery's services, and each
the CEOs shares my gratitude to
ontgomery for helping make our suc-

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Thomas G. Stemberg
Chairman & CEO
Staples Inc.
Framingham, Mass.

A CLOSER LOOK AT THE *ROCK*

We appreciate your Oct. 2 clarification of certain statements made in "How greed poisoned Pru-Bache," the review of Kurt Eichenwald's book *Serpent on the Rock*, which appeared in the Aug. 14 issue. However, we are compelled to advise you that there remain inaccuracies in that item regarding our client, James J. Darr [who was the head of direct investment and other divisions at Prudential-Bache Securities Inc.].

Specifically, we refer to your statement that Eichenwald provided "details of three undisclosed land deals with guaranteed paybacks that Darr received from the sponsor of several limited partnerships he was charged with overseeing." This is simply not true. A reading of Eichenwald's book reveals not three land deals with alleged guaranteed paybacks, but, rather, one as to which the claim of a guarantee was made, and which was properly qualified by Eichenwald to show that other evidence exists that contradicts that claim.

Moreover, with respect to the statement that Darr's investments were "undisclosed," as you know from Eichenwald's book, Darr disclosed the investments to his boss and to the firm's general counsel. It was Prudential-Bache Securities' attorneys—not Darr—who had responsibility for determining whether such investments had to be disclosed in the prospectuses.

Stuart Perlmutter
Davidoff & Malito
New York

Editor's note: Eichenwald's book is ambiguous about how many land deals Darr invested in and whether he reaped outsize rewards in all of them. While Eichenwald clearly suggests these were intended as sweetheart deals, Perlmutter is correct that the term "guaranteed" was used only with respect to one.

BAUSCH & LOMB UNDER THE MICROSCOPE

I served under CEO Daniel E. Gill, first as a division vice-president for marketing and finally as a division president, leaving in 1985 when my division was divested ("Blind ambition," Cover Story, Oct. 23). The man had a simple focus: build market share and shareholder wealth. During my tenure, I was never assigned numbers to achieve.

Gill did push people to perform at higher levels than they may have believed possible. He would try to drive managers to their next level of competency, and some failed.

Gill's message was clear: He was paying us to think and rethink the problem and not throw our hands in the air and give up. His message about "don't do anything stupid" was just that—not to damage the name and reputation of the company or mortgage the future.

Those managers that confused Gill's efforts to get them to understand their business with the "pressure to achieve at all cost" probably did not deserve their positions in the first place. I never heard of someone being terminated for not achieving sales and earning targets.

Having lived in the environment, some of the nameless references and comments from former employees look like cheap shots for what they perceive as unfair treatment they may have received. However, if they understood their business in the first place they would still be with the organization.

W. Barry Gilbert
Rochester, N. Y.

I was the international sales and marketing manager for the Bushnell division of Bausch & Lomb and maintained profit-and-loss responsibility for Precision Instruments Co., a Hong Kong subsidiary. During my tenure with the company in the early-to-mid-1980s, I reported to Harold O. Johnston and worked with Y. H. Chan in Hong Kong [two of the key figures mentioned in the story].

The quarterly emphasis on sales volumes was as your reporter, Mark Maremont, described it. On a charter flight to Panama, where a vice-president and I were evaluating a warehousing-and-distribution facility in Colón, I was told: "You're only as good as your last quarter." At a later meeting in Miami, where we evaluated the facility that was eventually to become Lamex, we had the same conversation with some other managers from Rochester. This philosophy was pervasive and incessant.

William J. Berdux
Penngrove, Calif.

The strategic, operational, and moral tone for any organization is set by the CEO. In the long run, shareholder value is the direct result of customer value. CEO Gill forgot that the numbers are neither the results of operations nor the purpose of B&L's activities. They are the measurement of the results of those activities. Measurements mean nothing if the underlying determinants such as market position, product quality, and customer value are viewed as secondary. For long-run shareholder value, the board of directors should see that Gill's replacement understands this.

Kenneth W. Gorn
Infinity Gro
Manhattan Beach, Ca

DIVERSITY AT AMERICAN FAMILY

Your story "Are life insurers biased or just careful?" (Legal Affairs, Oct. 1) contained a factual error. The National Association for the Advancement of Colored People (NAACP) lawsuit mentioned in the story was not filed "against the American Family Life Insurance Group." Indeed, there is no such entity. The lawsuit involved American Family Mutual Insurance Co., and in no way involved our life company.

Second, we remain puzzled why your reporter would dredge up a decade-old racial quote by one of our employees who was later fired. Anyone familiar with American Family knows this company absolutely forbids unlawful discrimination. In addition, our urban marketing program, our new metropolitan service centers, and our efforts to hire employees and agents from all culture show a commitment to seek wide diversity among our customers.

Rick Fethersto
Director, Public Relation
American Family Insuranc

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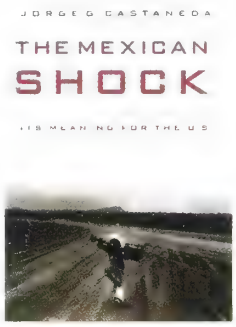
VILL MEXICO BE CAUGHT NDER THE VOLCANO?

urn-of-the-century Mexican dictator Porfirio Díaz lamented: "Poor Mexico. So far from God so close to the United States." How gs have changed. For President Er-o Zedillo Ponce de León, close ties he U.S.—as a market, source of in-ment, and lender of last resort—nearly his only hope of rescuing xico from economic collapse. To eve that, says the conventional wis-, Zedillo must continue, and deepen, free-market reforms launched by predecessor, President Carlos Salinas Gortari.

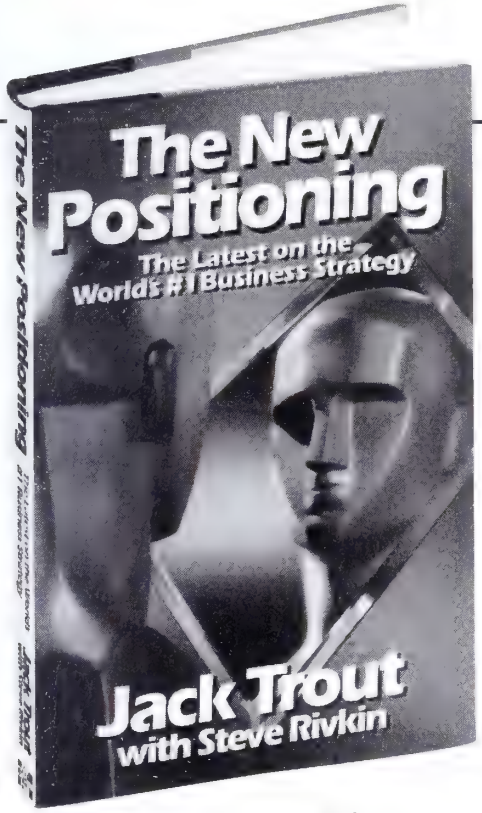
cautionary note is in order, howev-Before Salinas, Mexico's last great lernizer was Díaz. He opened the ket and attracted investors from the U.S. and Europe to upgrade industry and infrastructure, with considerable success. Nevertheless, he was overthrown in 1911, and a chaotic revolution ensued. His pursuit of economic growth had widened the gulf between rich and poor. And he had built no political consensus among Mexicans to support his reforms and legitimize his rule.



Much the same dilemma faces Zedillo and the long-ruling Institutional Revolutionary Party (PRI). Poverty is spreading in Mexico, and it's not clear that Zedillo is willing and able to democratize the PRI and hold fair elections. Failure to do so will eventually trigger a backlash against market reforms, says political scientist Jorge G. Castañeda. The possible consequences are a central theme of his book, *The Mexican Shock: Its Meaning for the U.S.*

When the North American Free Trade Agreement was approved in 1993, few Americans fully realized what it meant. The pact tightly linked the U.S. to the least democratic major nation in the hemisphere, with enormous economic and social problems and no working political mechanism for resolving conflicts through normal democratic processes: free elections and the alternation of political parties in power.

What NAFTA did achieve for the U.S., says Castañeda, was one of its "oldest and most persistent aspirations—Mexico's full incorporation into the American economic sphere and the subsequent political and international alignment of Mexico with Washington." Although NAFTA triggered an initial spate of U.S. exports to Mexico, unforeseen costs to the U.S. are rapidly mounting. President Clinton had



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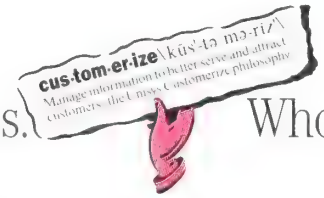
l the ***Customerize*** process. 

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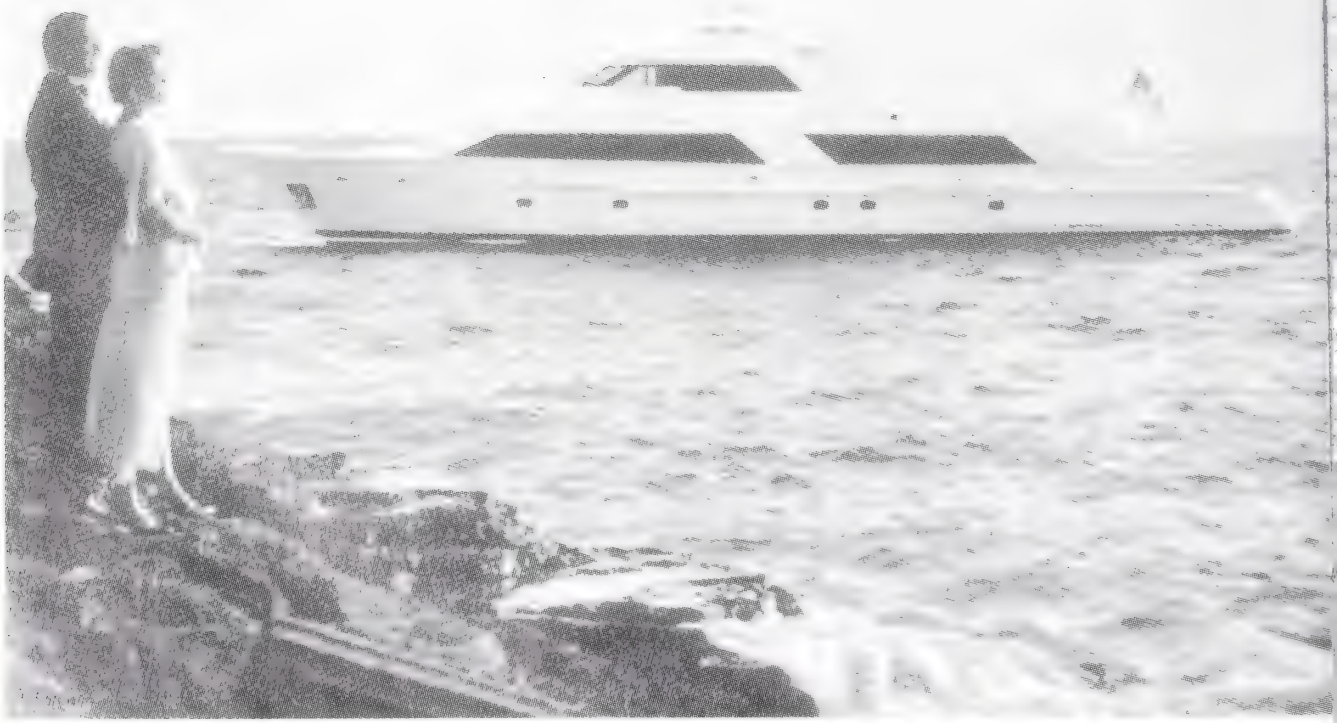

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end $12.5 billion to Mexico following peso's collapse, and cheap Mexican ›orts are now displacing American-le goods in the U.S. market, costing umber of American workers their s. In Castañeda's view, greater ains in U.S.-Mexican relations may in store.

Castañeda, 42, a professor at Mexico's tional Autonomous University and a umnist for the *Los Angeles Times*, a former leftist who, like many in in America, has moved toward the ter. He also is a well-placed observ-–a member of the elite, drawn from

Castañeda says free-market reforms haven't spread the wealth—and he sees trouble ahead

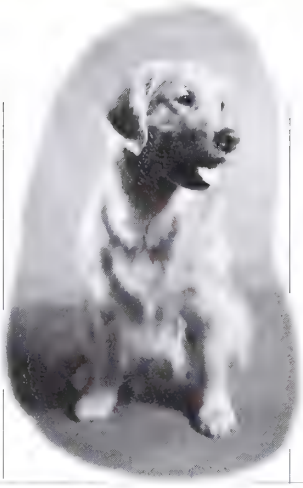
political tendencies, that influences nion and policies in Mexico. His book sprinkled with name-dropping anec-es, such as the discussion that he l novelist Carlos Fuentes had with inas about election reforms over an ht-hour lunch.

NAFTA was a key part of Salinas' ategy. A major flaw, Castañeda ar-es, is that it was designed to hold wn inflation, not make Mexican pro-cers more competitive. And political-Castañeda sees Salinas as a "sorcer-s apprentice"—who only partly mantled the PRI's system of political ntrol, from patronage to intimidation, t kept such unfair advantages as TV verage biased in favor of the PRI. As a sult, the August, 1994, national elec-ns "did not help create the spaces d channels necessary for popular dis-ntent, and the deep fractures among exican elites, to find free and accu-e expression."

That's dangerous. "Still ahead," Cas-ieda warns, "are the repercussions of rteen years of economic stagnation, a utal concentration of wealth and in-me, and the lack of any escape valve the resentment that must inevitably sue."

It's easier, of course, to forecast trou-than to lay out solutions. Castañeda's ok, mostly stitched together from ar-les originally written for magazines, is t a coherent road map for Mexican or .S. policymakers.

Castañeda is most illuminating in s insights into Mexico's political pro-sses and their significance for the



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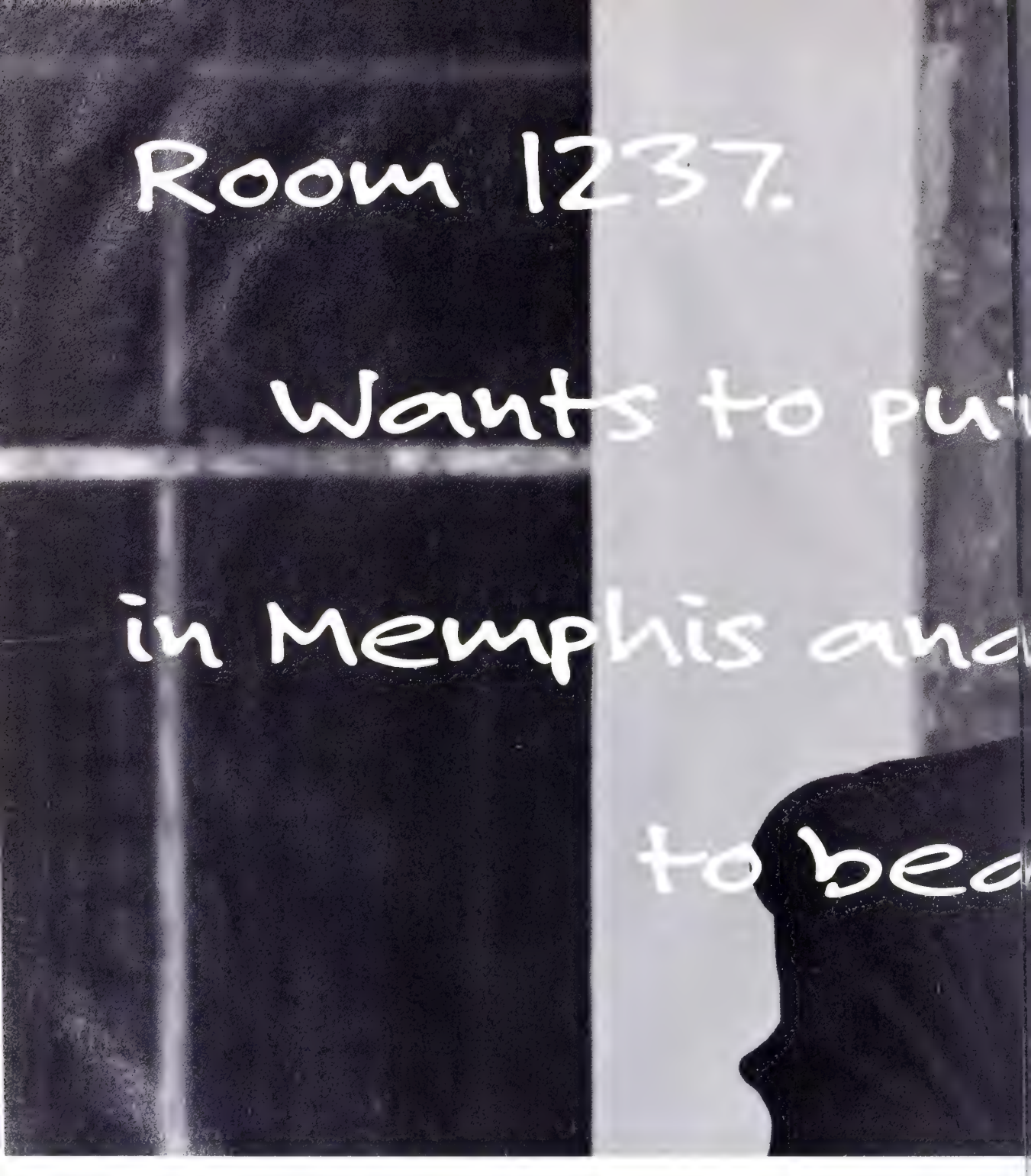

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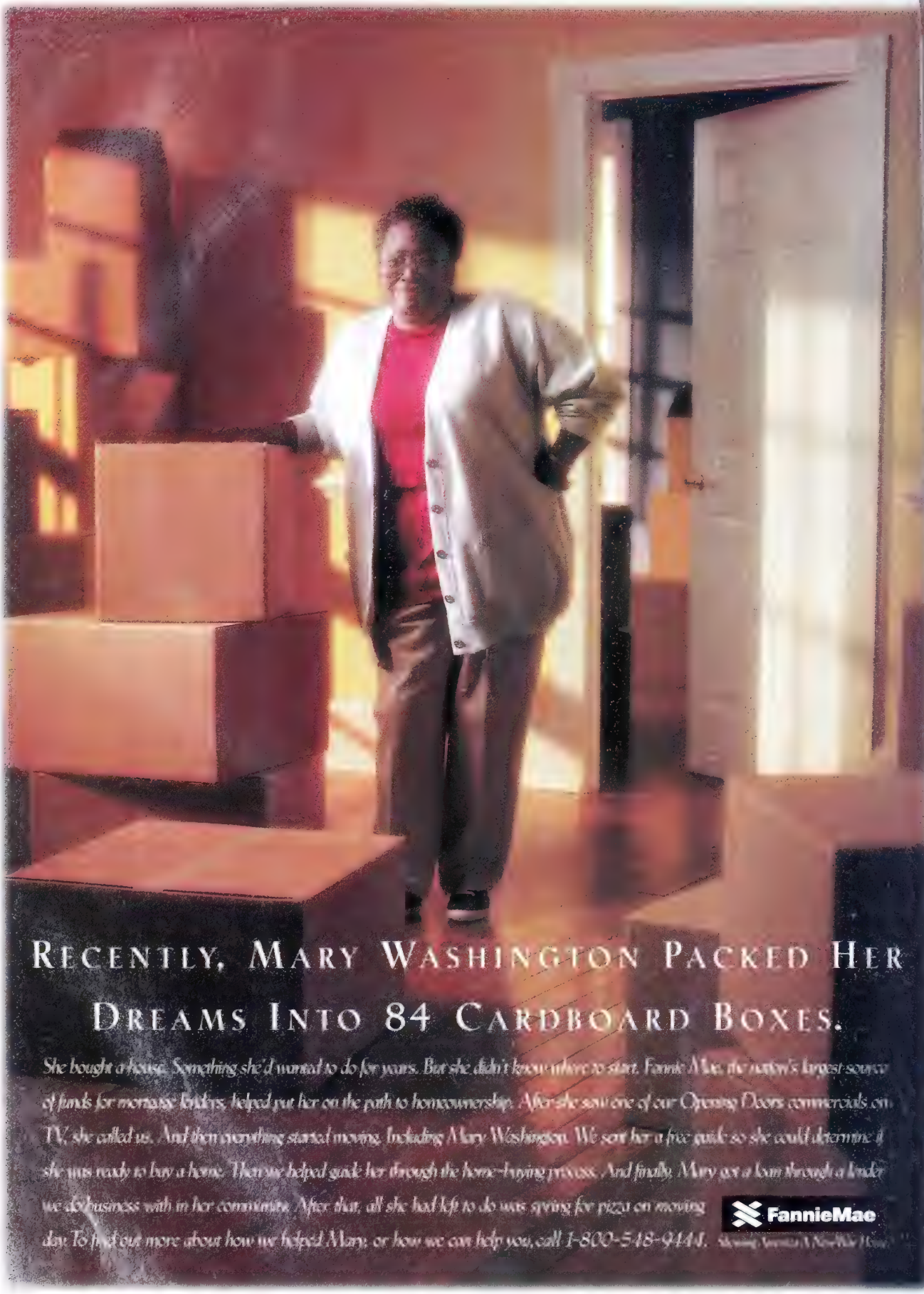
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FannieMae

3. Whether or not the PRI reforms it-, its monopoly seems likely to erode. charismatic former mayor of Mex-City, Victor Manuel Camacho Solis, example, recently quit the PRI in it could be a move to launch an op-ition party with more populist lean-s. And as Mexican parties compete votes, Castañeda says, "any sus-ied alternation in power through ctions" will "almost unavoidably" ig about a redistribution of wealth. Vhat the U.S. has been supporting Latin America are policies intended spur investment and create wealth, to spread it. But if democracy does coincide with economic growth and istribution, warns Castañeda, "in all lihood it will not last in Latin Amer-during these last years of our centu-' Despite the Chiapas uprising, re's no sign of a broader backlash ong Mexicans. But then, few saw the 1 upheaval coming. Indeed, Cas-eda quotes another wry maxim at-uted to Díaz as he headed for exile: Mexico, nothing happens until it pens."

BY JOHN PEARSON

Pearson is BUSINESS WEEK's Latin erican editor.

BOOK BRIEFS

GODS OF MANAGEMENT
The Changing Work of Organizations
By Charles Handy
Oxford • 254pp • $27.50

WHICH GOD RULES YOUR OFFICE?

If you secretly believe that personality traits are governed by the fates, you'll love *Gods of Management*. Charles Handy's 1978 book, now published in the U.S. for the first time, classifies organizations into four types and assigns a Greek god to describe how each one works. Zeus companies are old-boy networks headed by charismatic leaders. Apollo organizations are the gray-flannel-suit variety, in which dutiful employees work according to fixed routines. Athena is the goddess of problem-solving, teams, and task forces, and Dionysus rules the private professionals—lawyers, doctors, or artists whose principal loyalty is to themselves and who organize only when they must.

Handy, management guru and author of *The Age of Unreason*, argues that managers get into trouble when they try to impose the culture of one god in an organization built to worship another. For example, Athenian creativity will languish in an Apollonian environment of strictly enforced roles. This is obvious enough, but in the second half of *Gods*, Handy takes the lesson a step further. He predicts that new technologies and the rise of individualism will make Apollonian, big-company conformity obsolete. Smaller, more autonomous "villages" or networks will replace business behemoths. Dionysians and Athenians will get their day in the sun.

Unfortunately, Handy doesn't know much about ancient Greece or its deities. The idea that Dionysians dislike authority is hilarious when you recall that in the best Bacchic stories, the god's wine-crazed followers will do anything to please their lord, including killing their children. And it is hard to see the head of a white-shoe investment bank in randy, temperamental Zeus. Despite the poor scholarship, though, *Gods* is a prescient caveat, written some 15 years before "change engineers" said that sticking to an organization chart can do more harm than good.

BY JOAN WARNER

One thing it doesn't do quickly is depreciate.

Accord LX

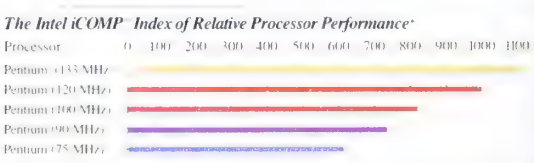
It does 0 to 60 in just 9.5 seconds. 70 to 0 in just 188 feet. And loses just 19% of its original value (retaining an astounding 81%) over four years.† Which means it's one of the few fast cars in the world which takes forever to reach the finish line.*

See Your Honda Dealer Today

*Car and Driver, September 1994. †Based on current [illegible] Accord LX Sedan 1995 [illegible] September/October [illegible] American Honda Motor Co., Inc.

The right processor fo

Whether you're doing financial analysis or creating a multimedia presentation, choosing an Intel Pentium processor-based PC is a smart move. That's because today's business



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pentium/ for more information.

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Intel Corporation. *Source: iCOMP: A Simplified Measure of Relative Intel Microprocessor Performance. Intel Corp. 1997

BY KAREN PENNAR

CD-ROMs FOR THE PRESCHOOL SET

Singsong melodies and colorful animation help tots learn their ABCs

My daughter is just shy of 2 years old, and like most new parents, I want to do all the right things to help her grow and develop. I had figured that computers and CD-ROMs were a few years off, until I started noticing the age recommendations on some of the software packaging: New CD-ROMs are coming out for kids as young as 2, and many target the 3-to-6-year-old set. Maybe some of this software was worth checking out.

After viewing some of the CD-ROM titles, testing kids' reactions, and chatting with educators, it's clear I was jumping the gun with respect to my daughter. Yes, she happily bobbed along to the musical riffs in *Dr. Seuss's ABC*. And she giggled at the gorgeous animations—from a dancing camel to a darting single-haired Zed—in the adaptation of that classic. But she hasn't yet acquired "mouse skills."

QUALITY TIME. Educators say that most children can't point and click a mouse until age 2½ to 3, so your child probably won't get much out of a CD-ROM before then. Between ages 3 and 6, kids adept at using the mouse will still need guidance from their parents—which could make for some quality time together at the computer.

Parents need help, too, in sorting out the flood of new CD-ROMs for preschoolers coming on the market. *The Parent's Guide to Children's Software 96* from *Newsweek* (packaged with a CD-ROM for $29.95), and *The Computer Museum Guide to the Best Software for Kids* (HarperPerennial, $16.00), both just published, do a good job of evaluating software. If parents want to know about new titles as they come along, they can check out the *Children's Software Review* (313 480-0040 to subscribe) or *Children's Software* (713 467-8686), two newsletters edited by former educators.

Don't fall for manufacturers' claims that their software will improve a child's thinking or problem-solving skills. They can offer a little rote learning—and then only if the programs are engaging enough for repeat visits.

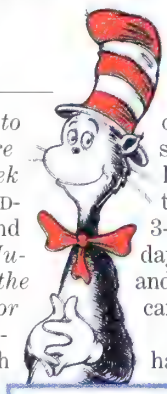
Dr. Seuss's ABC is an entertaining program that wows kids and parents alike. The basic screens will look familiar to Dr. Seuss fans, but the program adds narration to sound out the words. Clicking at random in the pages brings in new objects, such as a couch in the letter C screen. Nimble mouse-clickers will like chasing down the Zed, which appears from and disappears behind letters. But the program is best for occasional dipping in, rather than a straight read-through. One of my 5-year-old volunteers started losing interest by the letter L.

Alone, I took an hour or so to click through the entire alphabet—something parents shouldn't do with very young kids. Interest will flag, and some children can develop eyestrain. Educators suggest limiting time in front of the computer screen. For 3-year-olds, 15 minutes a day may be enough. For 4- and 5-year-olds, 30 minutes can be O. K.

Educational programs have to snare a young child's interest quickly. *Let's Start Learning!* is a cheery new program designed to teach the basics of counting, ABCs, recognizing patterns, and matching objects. Kids who answer enough questions correctly win gold keys, which they can then use to change the colors of a carousel horse. Most young kids probably won't play long enough at one sitting to accumulate many keys, and some activities, such as shape-sorting, produced frustration in my kid-testers. Other activities, such as the diner where kids help to cook up w combinations of food as t learn the alphabet and b words, were a hit. And singsong music appeals very young children.

GOOD CROW. Multiple-ch testing is a mainstay of e cational programs—eve it's masked by fanciful gar Still, when a child gets an swer wrong, the result n not be discouraging. A fri ly crow nudges kids tow the right answer in *Tru Time & Place House*, the est entry from Edmark C One 4-year-old didn't m the helpful hints as he mo an ant along a grid in a j bean hunt—and he screec with delight w the ant wo down a pink j bean and bri turned into a Older kids will the geography tion, which off capsule descripti of places from Galápagos to Colosseum.

One nice tou The parents' m ual accompany the Edmark p gram sugge things to do w your children af playing the p gram, such as ting your child "time manager" a day, telling y when to leave fo meeting or prepare dinner part of learning to tell ti Indeed, it's important for p ents to remember that ev if software is "interactiv and "educational," it does replace real life, or real-l parenting. By all means troduce your young one technology at an early a But make sure, says June Wright, professor of educ tion at Eastern Connecti State University in Willima tic, that using the comput is simply "one of many kin of interaction your child h at home."



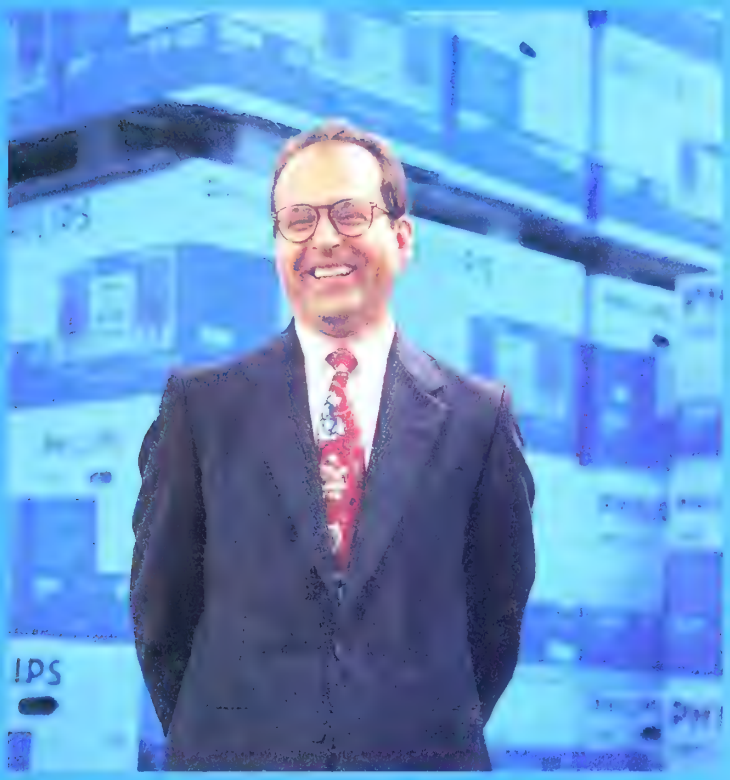
Software for Little Ones

Title (for ages)	Company	Price
LET'S START LEARNING! (2–5)	LEARNING CO.	$45.00
DR. SEUSS'S ABC (3–7)	LIVING BOOKS	40.00
TRUDY'S TIME & PLACE HOUSE (3–6)	EDMARK	40.00

DATA: BUSINESS WEEK

QUESTIONS? COMMENTS? tech&you@businessweek.com on Internet or fax (202) 383-2125

Brilliant ideas often start from a simple question.



Let's make things better.

Amado Ortiz, Logistic Executive Manager, Physical Distribution.
Mexico City, Mexico.

At Philips you don't have to wear a lab coat to have a bright idea.

I'm Amado Ortiz from the Distribution Department, Philips Mexico.

Our customers like our products, but they like them even more when they arrive exactly on time. Sadly, we weren't always perfect in this area.

"Why?" I asked.

an analysis of the problem we turned our distribution on its head. We up with a system which 'pulled' goods from their destination, rather than ed' them from their source.

result was 95% success and very happy customers.

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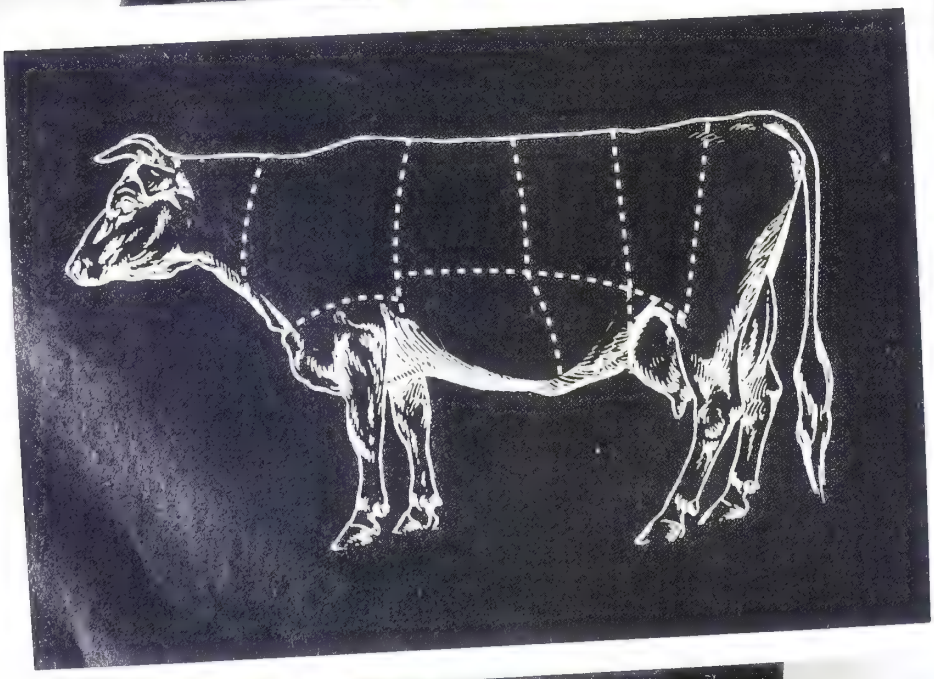
This is not



ow.

This is an organizational chart that shows the different parts of a cow. In a real cow, the parts are not aware that they're parts. They do not have trouble sharing information. They smoothly and naturally work together as one unit. As a cow. And you have only one question to answer. Do you want your company to work like a chart?

Or a cow?

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BY GARY S. BECKER

FORGET MONETARY UNION– LET EUROPE'S CURRENCIES COMPETE

CHOICE: If Europeans were free to do business in the currencies of all EU nations, the market would discipline irresponsible governments

On a recent trip to Spain, I was frequently asked by journalists and the business community about the plans to introduce in January, 1999, a common European currency, probably to be called the Euro. Although not an expert on monetary matters, I took a strong stand against this plan. I believe that a much better approach would be to increase, not eliminate, competition among European currencies.

Monetary union would be supported by a majority of the populations of all 15 member nations if they were confident that the future European central bank will behave like the German central bank. However, they fear that monetary policies of the European Monetary Union (EMU) will emerge from compromises and political infighting among members with different monetary and fiscal needs. A recent poll found that 73% of Germans "don't think" that a common currency could be as stable as the German mark, which probably explains why German Chancellor Helmut Kohl did not risk a referendum on the EMU among the German people. Under pressure from Euroskeptics within the Tory party, Britain appears to have decided to delay its entry in the EMU until after 2002.

SHARING POWER. Some Germans have already voted against the monetary union with their assets: The Swiss franc has been rising in value relative to the mark because Germans have shifted assets into Swiss franc-denominated assets, even though these pay lower returns than German assets. The franc will remain an independent currency because the Swiss have chosen to stay out of the European Union. German government bonds that mature after 1999 now command an interest premium as a result of the uncertainty about monetary union.

Plans for the EMU are most popular in Greece, Italy, Spain, and other countries that have had greater inflation and more erratic monetary and fiscal policies. Fortunately, there is a way to help the populations of these nations without punishing Germans and others with strong monetary policies. Rather than centralize power in the hands of a single central bank, a much better approach is to decentralize monetary power further by encouraging competition among monies.

An important step in this direction would be for each member nation of the EMU to permit the taxes it collects to be paid either in its own currency or in the mark, Bri pound, French franc, and possibly seve others. Shopkeepers, employees, and suppl would also be allowed to accept payment their goods and labor in any of these mon Market forces of supply and demand wo determine the exchange rates between currencies, so that the unpopular ones wo lose value.

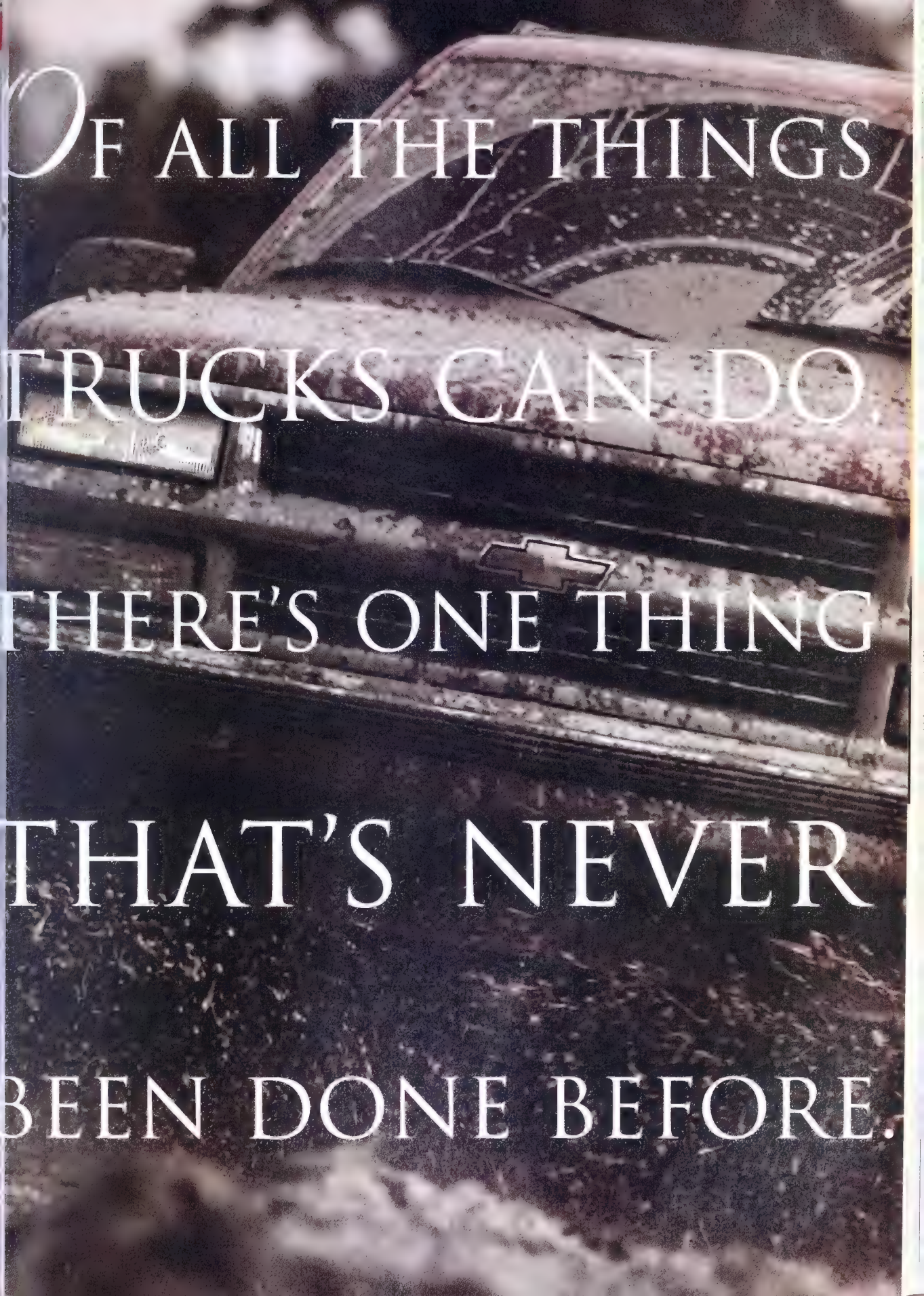
DEFICIT CHECK. Competition among curren helps discipline irresponsible governments reducing their incentive to increase their m ey supplies and to finance budget deficits a ing from dubious expenditures, such as ine cient state enterprises. Currencies will in value if governments try to inflate th way out of fiscal difficulties, since individu and businesses will shift transactions into s bler monies.

Presumably the population of each nat will continue to prefer its own money. But they gain familiarity with the new syste consumers, workers, and businesspeople w make greater use of the monies with mo stable purchasing power. This approach lows Germans and others to rely mainly their own currencies as long as they contin to perform well.

After an adjustment period, the transacti costs of dealing in several currencies is lik to amount to only a minor inconvenience. A ter all, many shops at international airpo now accept over a dozen monies, and th find that only slightly more inconvenient th taking American Express, Eurocard, and o er credit cards. Moreover, businesses c economize on these costs if they wish choosing to deal only in one or two monies. dominant currency could emerge from t free choices of the different populations they concentrate their transactions in the s blest currency, be it the mark, pound, or ev the lira, if it is well-managed.

Nations from all over the globe have d covered the enormous advantages of compe tion over monopoly in the production of ste telecommunications, air travel, and oth goods and services. The European Union h completely ignored this lesson in its plan for common money. But it may not be too late reverse direction and thereby encoura greater competition between European cu rencies in order to penalize and discourage i responsible government-based monetary a fiscal policies.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution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Last year Motor Trend's editors did something earthshaking. They all agreed. And unanimously named Chevy Blazer Truck of the Year. It was a pretty amazing feat. This year, Chevy Trucks shook up the truck world. They won the prestigious award two times running. The editors call this year's winner, Chevy Tahoe. "A class act." The full-size four-door truck with the "thoroughly car-like driving experience."

They found its powerful Vortec 5700 V8 "Will handle all you can dish out and then ask for more." They found

Includes other GM divisions. "Dependability based on longevity. 1985-1994 full line light duty truck company registrations. Excludes other GM divisions. Hi

R WON BACK-TO-BACK
HE YEAR AWARDS.

ts interior "positively decadent." In fact, they found nothing else was like Tahoe. So they gave it their highest award.

It's a pretty safe bet that you'll find just what you're looking for in the Chevy sport utility family. There's Blazer, with the exclusive Driver Control System and the biggest V6 there is. The rugged and elegant Tahoe with the Vortec V8. And the super-sized, mega-featured Suburban. They're trucks that break records and break new ground. They're Chevy Trucks. The most dependable, longest-lasting trucks on the road.

LIKE A ROCK

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BY GENE KORETZ

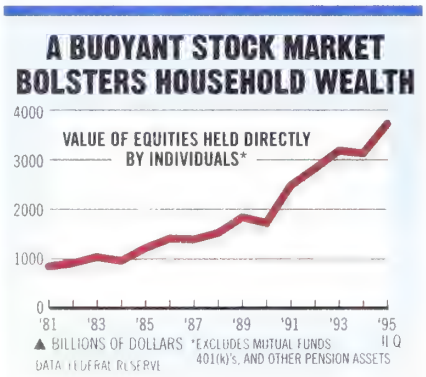
SANTA'S GIFT TO RETAILERS?

A capital-gains cut could help them

Notwithstanding the economy's robust 4.2% growth rate last quarter, the omens point to a bleak Christmas. Not only were back-to-school sales weak this fall, but reports of credit-card delinquencies are growing, and many major retailers say demand remains weak.

Economist David Hale of Kemper Financial Services Inc., however, thinks there's still a fair chance that anticipation of a capital-gains tax cut will boost consumer demand as Christmas approaches. Since January, he notes, the value of equities held by U.S. households has risen by more than a trillion dollars.

Over time, such appreciation tends to stimulate consumption through a wealth effect—that is, people who feel richer tend to loosen their purse strings. But the pickup is often diffuse and delayed. What may accelerate and strengthen the effect this time around, argues Hale, is the possibility that the President and the GOP-led Congress may soon agree on a capital-gains tax cut that would be effective late this year.



"If that happens," he says, "households are likely to take some capital gains and spend part of the proceeds on last-minute holiday shopping."

In such a scenario, more affluent households would lead the way. One reason retail sales were soft in the spring was that many high-income households were hit with deferred tax bills resulting from the tax hike passed in 1993. Now, such households will be able to realize appreciably larger after-tax capital gains.

And it's not only the superrich who will benefit. The New York Stock Exchange reports that in 1990, some 8.9 million out of 51 million individual shareholders had equity portfolios above $50,000. Since stock prices have doubled since then, Hale figures that the number of households with equity holdings over $100,000 now exceeds 12 million. And that doesn't count huge household equity investments via mutual funds or pension vehicles such as 401(k)s.

Even if the wealth effect doesn't materialize before Christmas, says Hale, it could well prove the key to sustained economic growth next year.

DANGER FOR JOB-CHANGERS

Lots of them lose health coverage

With legislative attention focused on reducing the costs of Medicare and Medicaid, the most egregious current health-care problem—the 41 million Americans who lack any health insurance at all—appears to be worsening. And the flexibility of U.S. labor markets—the ease with which Americans change jobs—isn't helping the situation.

A Commerce Dept. survey found that only 32% of 3.4 million men age 25 to 54 who changed full-time jobs from 1991 to 1993 had employer-sponsored health insurance in their new jobs, compared with 49% with coverage under their old employers. And among 1.8 million similar female job-changers, the incidence of employer-sponsored coverage fell from 46% to 30%.

A NEW LOOK AT OLD HIGHFLIERS

The 'nifty-fifty': Nifty after all

Remember the so-called "nifty-fifty," the cadre of such fast-growing, heavyweights as Xerox, IBM, and Coca-Cola, whose stocks soared in the early 1970s on the wings of huge price-earnings ratios only to collapse with a thud in the bear market of 1973-74?

While the consensus is that the nifty-fifty are a classic example of unwarranted speculative fever, Jeremy J. Siegel of the University of Pennsylvania's Wharton School disagrees. His study in the *Journal of Portfolio Management* finds that the group has actually outperformed the broad stock market over the past 25 years.

Looking at total returns, including dividends, Siegel finds that the nift ty badly lagged behind the overall s market in the second half of the 1 but have since outperformed it sig cantly. Indeed, he calculates that $ vested in the stock market at the s of 1971 would have grown to $14.8 mid-1995 but that it would have $17.38 if invested in a "frozen" equ weighted portfolio of the nifty-fifty identified by Morgan Guaranty T Co.). And it would have grown to $2 if the portfolio had been adjusted month so that each of the 50 stocks mained 2% of the total value.

"With the benefit of hindsight," Siegel, "the nifty-fifty as a group s well worth the price paid by inves during the bull market of the early '7

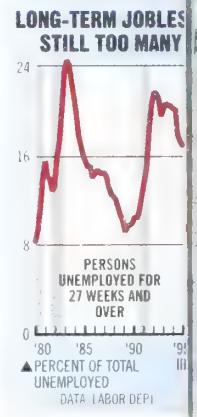
NEED WORK, WON'T TRAVEL

Why some workers stay unemplo

A new and puzzling problem is c ping up among America's job-se ers: stubbornly high long-term un ployment. The problem, of course familiar to Europeans, whose job spells can last years. But long-te U.S. unemployment—lasting more t six months—usually rises sharply du recessions and then drops just as sh ly during recoveries.

Not in this recovery. Since peaking '92, the percent of the unemployed have been out of work for six months longer has declined only about th percentage points. In contrast, it fell percentage points in the three years lowing its previous peak in 1983 (cha

Why are so many of the unemplo still searching for work after months? Part of the answer may be duced geographical mobility. Accord to Challenger, Gray & Christmas, outplacement firm, many laid-off managers are afraid to leave friends and family to take jobs that may prove as impermanent as their former positions. Reluctance to move, says the firm, is especially strong among workers whose spouses have secure, well-paying jobs in their current locations.



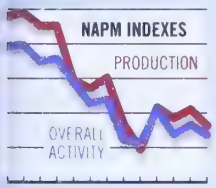
JAMES C. COOPER & KATHLEEN MADIGAN

NE QUARTER OF ZIPPY GROWTH VON'T SPOIL THE SOFT LANDING

U.S. ECONOMY Is the economy taking off again? Just when the soft ding seemed like a done deal, along comes word t third-quarter growth jumped to a 4.2% annual e, a sharp speedup from the second quarter's 1.3% wing. Is it time to revive those worries about over- ting?

f you are concerned that rapid growth will contin- and set off a round of rising inflation, tightening netary policy, and higher bond yields, you can relax. e any 4½-year-old, this expansion will experience a wth spurt now and then, and the third quarter's s helped by a couple of special factors. Moreover, fundamentals necessary for a speeding economy simply not in place at the moment.

OWER GROWTH AHEAD, SAY PURCHASERS



PERCENT REPORTING IMPROVEMENT
DATA NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

As a result, fourth-quarter growth is most likely to settle back to the noninflationary trend of about 2.5%. In fact, based on the Commerce Dept.'s new chain-weighted measure of gross domestic product, which will become the gospel on economic growth in a month or two, real GDP grew only 3% last quarter.

Why the moderate outlook? nsumer spending will be limited by job growth that alf of last year's pace and by high debt levels that beginning to burden some households. Low-tech ital spending, accounting for two-thirds of every lar spent on new equipment, is slowing down. Also, lift to housing from this year's drop in mortgage es is about played out. And having been caught h excess inventories in the spring, businesses will be ry about building them up again too rapidly.

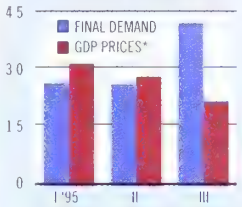
ANYTHING, the microburst of growth in the summer y be stealing some pep from this quarter. The Na- nal Association of Purchasing Management's busi- ss index took an unexpected spill in October. The PM index fell to 46.8%, from 48.3% in September art). The readings on production, orders, inventories, l employment all weakened last month.

The NAPM survey shows that while the factory sec- contracted in October, the overall economy was ll growing. An autumn slowdown was also the view the Federal Reserve's survey of economic activity hin its 12 districts, prepared in advance of the Fed's v. 15 policy meeting.

The so-called Beige Book said that "moderate growth in economic activity continued in early fall, although perhaps at a slower pace." In particular, the report suggested "a pause in retail sales in some districts." At the same time, the survey showed that wage hikes remained "moderate," and the upward pressure on materials prices was abating.

Both pieces of news suggest any inflation worries are misplaced. In the third quarter, the inflation rate, as measured by the fixed-weight price index, fell to 2.1%, the lowest in two years. The implicit price deflator posted the smallest increase in 32 years.

THE BEST OF BOTH WORLDS



▲QUARTERLY PERCENT CHANGE, AT ANNUAL RATES *FIXED-WEIGHT DEFLATOR
DATA: COMMERCE DEPT., BUSINESS WEEK

Low inflation was a key highlight in the third-quarter GDP report—especially since it came at a time when final sales were so strong (chart). Rising demand by consumers, businesses, and government accounted for all of the quarter's advance. Inventory growth was as big in the third quarter as in the second.

Two factors exaggerated the second quarter's weakness and the third quarter's strength in real GDP. One was a 10.2% annual rate of gain in federal nondefense purchases last quarter, reversing the second quarter's 8.6% drop. The government sector probably will subtract from fourth-quarter growth, and amid budget cutting, it will not be much of a contributor next year. Swings in the auto industry also have skewed this year's economic performance.

The economy's biggest sector—consumer spending—rose at an annual rate of 2.9% last quarter, following a 3.4% increase in the second quarter. Households are unlikely to maintain that pace, however. During the past two quarters, real aftertax income has risen at only a 1.6% annual rate. In fact, based on the *Johnson Redbook Report*'s survey of retailers, October sales at department and chain stores fell 1.8% from September. That's another sign that October was rocky for the economy.

STILL, CONSUMERS are not ready to pull in their horns entirely. Their optimism in this economy remains too high for all-out shopper retrenchment. The Conference Board's index of consumer confidence stood at 97 in October, little changed from 97.3 in September.

In addition to a more sedate consumer sector, the GDP report also showed a slowdown in capital spending

for equipment, mainly low-tech industrial items. Low-tech spending rose at an annual rate of 3% last quarter, compared with 6.5% in the first half. High-tech outlays cooled down to a 16.2% growth rate, from the first half's 31% gallop.

Housing construction rose at a 10.9% annual rate last quarter, the best gain in 1½ years. But here too, the pace appears unsustainable. With mortgage rates bottoming out, sales of new single-family homes are peaking. After hitting a high for the year in July, sales fell 11.1% in August, and they rebounded only 3.3%, to an annual rate of 727,000, in September.

Overall construction spending did end the third quarter at a lively pace. Building outlays jumped 1.2% in September, the fourth straight increase. Residential and public construction projects led the advance.

LUMPED TOGETHER, businesses, consumers, and government should keep their spending rising steadily, if less robustly than in the third quarter. At the same time, though, rising inflation will remain out of the picture. That's a curious notion when you consider that real wages are finally crawling into positive territory.

Low inflation, however, is the result of improving productivity, which is nearly outpacing the growth in payroll costs and thus keeping unit-labor costs from rising much. For the third quarter, economists expect another good gain in output per hour worked—although not near the 4.8% surge of the second quarter—w labor costs continued to slow.

The Labor Dept.'s report on employment costs sh that wages and benefits for civilian workers rose 0.6% last quarter. Over the past year, they're up 2.7 the lowest pace since Labor began keeping records 1982. Although employment costs are not exactly equa the compensation data used to calculate unit labor co both measures have been trending lower.

A sharp drop in the growth of benefits is leading the downward drift in labor costs (chart). Smaller increases in the cost of employee health care is the main reason. In the third quarter, the cost of health-care benefits was actually lower than a year earlier. Yearly wage growth bottomed out three years ago and has been creeping higher since then. Third-quarter pay was up 2.8% from a year a

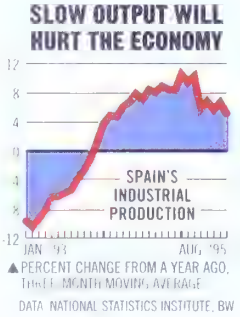
The small increase in wage growth has been c key to keeping the expansion going while moderati inflation. And despite the growth spurt in the th quarter, there is little other data to suggest that t economy won't return to the slow-growth, low-inf tion trend sought by the Fed.

SPAIN

STABLE ECONOMY, SHAKY GOVERNMENT

Spain's economy will head into 1996 amid slower growth, stable inflation and interest rates, and political uncertainty.

As expected, Parliament on Oct. 25, led by the opposition Partido Popular, rejected the 1996 budget submitted by the minority government of Prime Minister Felipe González. The defeat was the Socialists' first in 12 years of rule. The vote, aimed at forcing general elections before the March date set by González, was a thumbs down on the government and not on the deficit-cutting budget. Regardless of election timing, polls suggest that the center-right PP will win, an outcome that the financial markets would welcome.

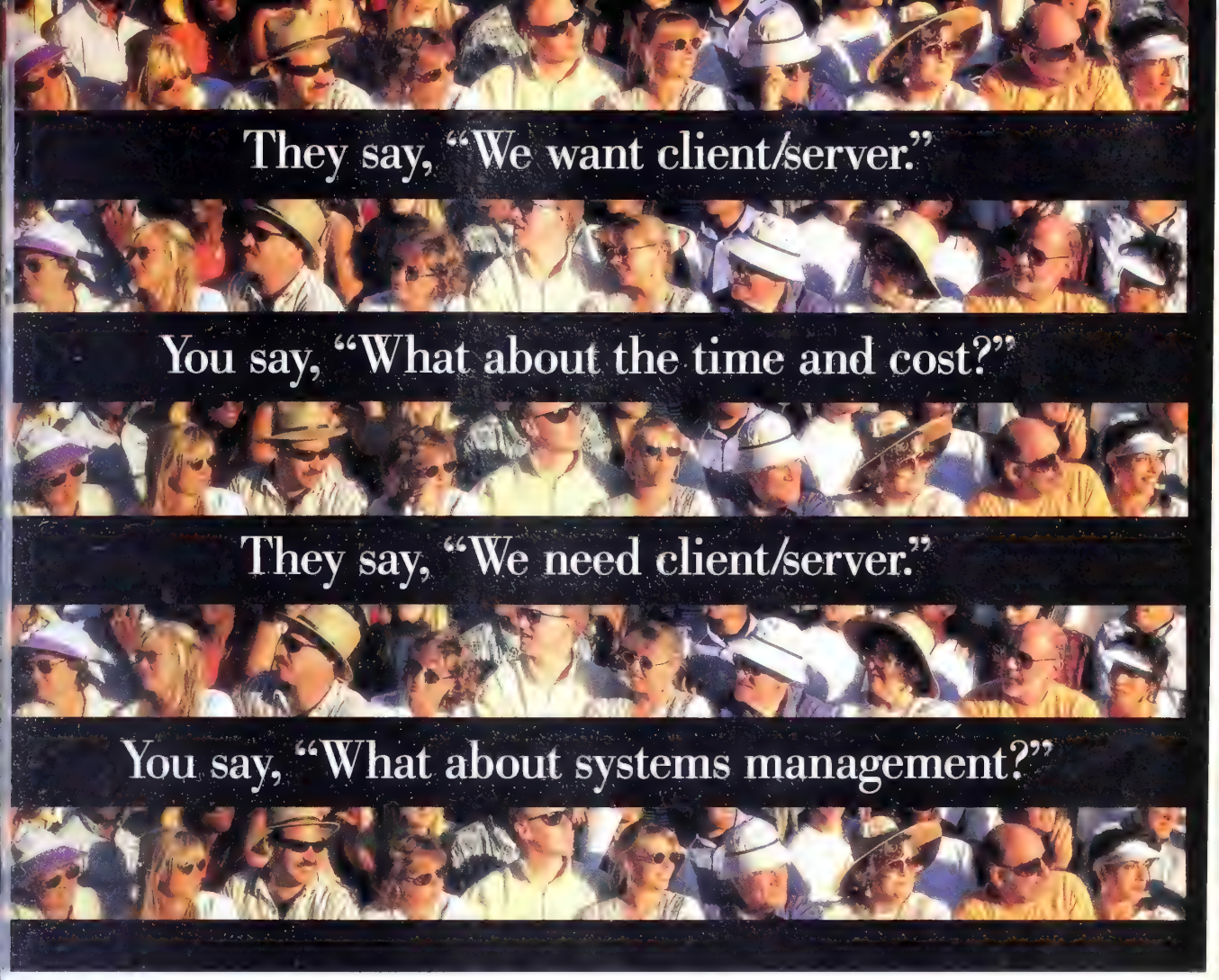


The 1995 budget, which will yield a deficit close to the targeted 5.9% of gross domestic product, will be rolled over into 1996. In an effort to cut the deficit further, the government will use a decree law, for now requiring only Cabinet approval, aimed at implementing pieces of the proposed '96 budget. That draft targeted the deficit at 4.4% of GDP, but analysts think 5% is more realistic.

That's partly because of the government's optimistic economic assumptions: 3.4% growth and 3.5% inflation. Analysts generally expect growth next year no higher than this year's projected 3% pace. Inflation, headed toward 4.5% in 1995, will hang above that rate in 1996.

The economy already is showing signs of slowing from the second quarter's 3.2% annual growth rate. Consumer spending will remain sluggish, as lower wage increases and worry over future pension benefits hurt consumer confidence. Construction, a growth leader, is set to slow because of budget cuts and higher mortgage rates. Exports also are slowing, but so are imports. The main strength is capital spending, buoyed by strong profits. Still, industrial production is losing steam (chart).

The Bank of Spain will likely hold interest rates steady in coming months, at least until a restrictive budget is in place. Then, if inflation stays tame, the way may be clear for a rate cut.



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AT&T is jumping back into local service–but it won't be cheap

$13.5 billion. Keep that number in mind as you marvel at how much AT&T is willing to spend, the regulatory hassles it will have to endure, the acquisitions it might make in the coming years to get into local calling. That's because $13.5 billion is what AT&T shells out every year to the nation's local phone companies for access to their networks. That constitutes about 40% of AT&T's cash operating costs and equals almost one-third of its total revenue.

It's a number that is sparking the next great battle in telecommunications: In an effort to shed the expense of access charges, AT&T is gearing up to compete with local phone companies on their own turf. On Oct. 26, AT&T finally announced that it will offer local service anywhere, any time that it is allowed, for the first time since being forced out of the business in 1984 by the Justice Dept.

In the next few weeks, say sources close to the company, AT&T will unveil a partnership with one or more so-called alternative access providers, allowing it to bundle local, long-distance, and cellular services—even, possibly, cable TV and enhanced features such as voice mail—into a single AT&T-brand offering. "We will fight for the right to give our customers a choice for local service through every option open to us," Chairman Robert E. Allen said in a statement.

In its momentous undertaking, AT&T is well behind rivals. Sprint Corp. has been developing a local-service strategy for more than a year, through its alliance with three of the nation's top cable-TV operators. And MCI Communications Corp. has spent $600 million during the past two years to build local networks in 17 cities. AT&T, meanwhile, has only dabbled in local service in Rochester, N. Y.

LONG HAUL. One stumbling block has been legislation that strictly limits the long-distance companies' abilities to offer local service. But telecommunications-reform legislation, expected to be hammered out by Christmas, would throw the local-calling market wide open to competition. And AT&T itself removed the other barrier: On Sept. 20, it said it would spin off its Network Systems equipment unit, whose biggest customers are the local carriers. F years, AT&T was reluctant to do batt with those big spenders. Now, the glov are off.

The fight, however, will be tough. A the options all are expensive. The cos of constructing a new national pho network from scratch, for instanc would be exorbitant. Royce J. Hollan president of alternative local carrier M Communications Co., estimates that would take some $5 billion and the re of the decade for AT&T to build local sy tems just in the 50 largest markets.

Instead, AT&T might decide to buy company that already has access—suc as MFS, which serves businesses in 4 cities. Alternatively, it could acquire partner with cable operators Time Wa

Going Local

AT&T 's entry into local phone service likely will combine parts of four less-than-perfect options

BUY USED

AT&T could buy local network capacity from existing phone companies at wholesale prices, then resell it to consumers.

PROS: AT&T could leap into the business immediately.

CONS: It would be tough to make money unless local carriers discount steeply.

START OVER

By building its own competing lo phone systems, AT&T could bypa ing local carriers.

PROS: AT&T could have comple trol and save of billions in access long-distance calls.

CONS: A network could cost $5 or more, and take several years t

TURF BATTLE: *Telecom reform should throw the local market wide open*

GO WIRELESS

cCaw deal gives it a cellular ›overing 30% of the U.S.; throw ıd the number hits 80%.

Iobile phones are booming, so g would be easy. Plus, there no long-distance access fees.

Bandwidth capacity can't yet nation's wired network.

FIND A MATE

AT&T could bypass Baby Bells by hitching up with cable companies or alternative local carriers.

PROS: Bye-bye, access fees.

CONS: It will take years to upgrade most cable systems to carry voice traffic, and Sprint already has a deal with three of the largest cable companies.

· Inc. or Continental Cablevision Inc., ther of which have joined the Sprint iance. An acquisition wouldn't be ›ap, either—MFS has a market valuan of $3 billion. And only a handful cable systems have been upgraded offer phone service. Either route, ›ugh, would jump-start AT&T's indeıdence from access fees, giving it di›t access to customers.

For local phone companies, that's a ›nacing prospect. UBS Securities Inc. ılyst Linda B. Meltzer estimates that ıile AT&T may lose 10% of its longtance customers to the Baby Bells ring the next few years, the Bells ıld lose anywhere from 20% to 40% of ›ir local customers once AT&T enters › market. AT&T's edge: It will be able to bundle together local, long-distance, and international calling, a cellular service, Internet access, even a credit card to pay for it all. Most of all, AT&T has a brand name that is virtually synonymous with phones and spends $700 million a year on advertising.

GORILLA WARFARE. The result: Big-time credibility. A recent Morgan Stanley & Co. survey found that only AT&T inspires brand loyalty among phone customers. In the local residential market, 30% of those asked said that if prices were the same, they would switch to AT&T. "They are not coming in as a beggar with a tin cup," says Thomas J. Reiman, Ameritech Corp.'s senior vice-president for state and governmental affairs. "Truly, AT&T is the 800-pound gorilla."

For now, though, this gorilla has little choice but to rely on the Bells' networks. "The only way in is through resale," says Joseph P. Naccio, head of AT&T's consumer calling business. "It's just the prudent way to start." The problem: It's nearly impossible to make money in resale unless the dominant carrier offers significant reductions off retail prices. ATT, which was forced to give a 55% discount to MCI and Sprint when competition started in long distance, wants Washington to require the Bells to offer discounts of 25% to 35%.

The Republicans directing telecom legislation would prefer to leave pricing up to the market. In some cases, that could be the right solution. "We figure AT&T will come in as a reseller and stimulate the hell out of the market," says Richard A. Jalkut, president of Nynex Corp.'s telecommunications group. "We'll end up growing our wholesale business." So Nynex plans to offer resale prices low enough to prevent AT&T and others from building a competing infrastructure.

WIRELESS WONDERS. Ultimately, though, AT&T can only control its own service if it owns its own network. And that won't happen anytime soon. Naccio notes that AT&T owns just 136 highly advanced digital switches across the U.S., while Ameritech has half that number in Chicago alone. "There is a myth going around that we have some big secret network just waiting to handle local service," says Naccio. "But all our switches operate at engineered capacity. We do not have surplus assets lying around."

What it does have is wireless. AT&T's cellular network covers 30% of the nation's population. The licenses it owns for the new Personal Communications Service (PCS) will give it 80% coverage. If offered comparable price and reliability, analysts say, most customers will choose mobile phone service over their wired phone. And equipment is reaching the market that will address wireless' capacity limitations.

Naccio cautions that wireless local access "is not imminent." But AT&T's national network should be in place in 1997, and analysts figure that by 2000, wireless will emerge as a real threat to stationary local service. It isn't hard to figure how AT&T will find the $2 billion to $3 billion that construction of such a high-capacity wireless network will cost. Just keep thinking: $13.5 billion.

By Catherine Arnst in New York, with bureau reports

THE ECONOMY

WHAT IF UNCLE SAM DEFAULTS?

The consequences should give pause to Gingrich's gang

First, foreign investors get edgy. Fearing they won't collect on billions in overdue U.S. Treasury securities, they start unloading their holdings. The dollar swoons. Wall Street holds out a little longer, but soon the selling pressure erupts. Falling bond prices push up interest rates, perhaps a quarter of a point. Then lawyers fly into action, arguing that pension and trust fund rules require funds to dump hundreds of billions in bonds.

A scenario for *The Great Panic of '95*? It could come close—if Washington's bitter budget battle forces the Treasury to default on its debt for the first time ever. Not since Alexander Hamilton persuaded the Constitutional Convention to assume the states' Revolutionary War debts in 1787 has the U.S. missed a payment on its obligations. Now, Washington is skating ever nearer.

On Nov. 1, with the debt pressing within $14 billion of the $4.9 trillion debt ceiling, Treasury said it may have to delay an auction of more than $100 billion in notes and bonds scheduled for Nov. 7-9. At a meeting the same day, President Clinton failed to reach a compromise with GOP leaders to temporarily increase the debt limit. Vows House Speaker Newt Gingrich (R-Ga.): Congress won't grant a long-term increase in the debt ceiling until the President capitulates to GOP tax and spending cuts.

HOBSON'S CHOICE. Given the grave consequences of a default, investors are betting calmer heads eventually will prevail. Traders appear confident that Washington will head off default and come up with a budget-balancing plan—which is one reason long-term interest rates have been falling, despite Gingrich's threats. The dollar also has risen lately, reflecting confidence overseas. "It's like *The Perils of Pauline*," says economist Bruce Steinberg of Merrill Lynch & Co. "The government gets tied to the tracks once more but somehow never gets sliced by the train."

But what would happen if the unthinkable comes to pass and the U.S. government actually does default on its obligations? Treasury expects to exhaust its borrowing capacity and cash reserves during the week of Nov. 6—and faces $100 billion in interest and principal payments by Nov. 16. At that point, Clinton could face a choice between the illegal and the unthinkable. In theory, he could tap the $1.2 trillion the government has parked in Medicare, highway, and other trust funds. But after President Reagan dipped into the Social Security trust fund during a similar row in 1985, Congress made it illegal to tap the money funds for anything but benefits.

WORSE NEWS. Even so, Clinton probably would opt for a legal donnybrook over the alternative: letting millions of bondholders lose principal and interest. If that happened, foreign investors—who own 25% of privately held Treasuries—wouldn't wait for even a quick political settlement. "We may see a markdown of U.S. assets if there's tremendous disruption of the financing schedule," says George Magnus, chief international economist at Union Bank of Switzerland in London. U.S. bond traders would follow, and the contagion would soon spread to stocks.

The long-term effects would cost even more. Treasuries would no longer be the world's safest securities. Investors would demand a "risk premium"—and every 0.1 percentage point added to rates eventually increases Washington's annual interest tab by $5 billion. "You could pay for lots of education programs with the extra interest," says Clinton economic adviser Joseph E. Stiglitz. The same 0.1-point rate hike would knock $8 billion off the value of bonds held by pensions and add $800 million in annual interest costs for homeowners with adjustable-rate mortgages.

Republican hard-liners insist that such a disruption is a small price to pay for the benefits of a balanced budget. But there's little evidence that default is necessary to get to that end. After all, Clinton is willing to negotiate. "Gingrich doesn't want to see Clinton on national TV saying: 'I'm raiding the Social Security trust fund because the Republicans forced me to do it,'" says L. Douglas Lee of HSBC Washington Analysis, an investor advisory firm. The risk of triggering the next step—default—should be enough to persuade Washington to shelve *The Great Panic* scenario for good.

By Mike McNamee in Washington with Bill Javetski in Paris

A default would mean dumped bonds, a weaker dollar, and higher interest–just for starters

HE MEDICARE HUNTERS AY GET MAULED

s the GOP grabbed a gray tiger by the tail?

or nine months, Representative Dick Zimmer (R-N.J.) marched loyally with the revolutionary shock ops of House Speaker Newt Gingrich Ga.). He cast some 25 votes for a anced budget and hectored comrades stand firm. "We have talked the talk. w it is time to walk the walk," Zimr said last May.

But when it came to votes in late ober to overhaul dicare and balance budget, Zimmer sn't walking, he was inting—in the other ection. "The bill in current form is un- to New Jersey," mer declared, after ting a vote against GOP plan.

The Garden State maker isn't Washton's only anguished publican. There is a wing fear that the ty may have hooked osing issue when it ided to wring $270 ion in savings out of Medicare program he same time it was ting taxes by $245 billion. A *New k Times*/CBS News poll conducted . 22-24 found that only 26% of Amerns approved of the Republican dicare overhaul, while 57% disliked it. d a *Washington Post*/ABC News poll nd that, by 58% to 38%, voters favor aving Medicare services basically as y are now," even if it means failing balance the budget.

The trouble for the GOP doesn't end re. Statehouse Republicans across country are grumbling that their ty's budget, which shifts responsibil- for social programs while capping federal aid, could force Republican governors to cut services or raise taxes.

Already, the Medicare issue has engulfed the 1996 GOP Presidential contest. Populist outsider Patrick J. Buchanan is airing ads blasting Congress for balancing the budget "the wrong way." He demands cuts in foreign aid and congressional pensions "before we cut Medicare for senior citizens."

OCTOBER SURPRISE: *Seniors rally in the capital in support of Medicare*

For now, Hill Republicans are sticking to their mantra: They're not cutting Medicare, they're slowing the program's growth. But Buchanan's broadside has flustered many. And Senate Majority Leader Bob Dole (R-Kan.) dug a deeper hole on Oct. 24 when he told the activist American Conservative Union that he opposed Medicare as a young House member in 1965 "because we knew it wouldn't work."

That comment could haunt Dole's Presidential campaign—and '96 GOP congressional candidates. Democrats seized upon it as evidence of a shadowy conspiracy to gut Medicare. Senator Phil Gramm (R-Tex.), Dole's bitter GOP adversary, quickly pledged allegiance to Medicare and blamed Dole for "handing the Democrats' public-relations machine ammunition to scare senior citizens."

The Democrats are heartened. The *Post*/ABC poll found that, for the first time since the 1994 election, more voters say they would prefer a Democrat to represent them on Capitol Hill. "Newt has led his troops over the cliff without a blindfold," chortles Democratic pollster Mark Mellman.

TAKING NO CHANCES. GOP strategists insist Republicans will rebound when voters learn they saved Medicare from bankruptcy. "We are at about the bottom end of where we go in the poll numbers," predicts National Republican Congressional Committee Chairman Bill Paxon (R-N.Y.). "The Democrats have overplayed their hand."

Still, GOP incumbents are not taking any chances back home. Representative Phil English (R-Pa.) has set up his own Medicare "advisory board" to listen to constituents' complaints. And Representative Robert W. Ney (R-Ohio), whose district is heavily Democratic, has scheduled seniors' forums to explain the GOP program. "We've got to work intensively in the next two months to make sure people are not so polarized they won't listen to us," he says.

Meanwhile, GOP dissenters are being roasted by fellow Republicans. Conservatives accuse Zimmer of betrayal. "It was an act of cowardice," thunders GOP state senator Dick LaRossa. "I don't think Dick Zimmer has the stomach for a tough fight."

So far, just a few revolutionaries have fled under fire. But GOP loyalists wonder whether they will end up heroes or martyrs.

By Richard S. Dunham in Washington

Backlash in the Making?

rom what you know of e Republican plan to hange Medicare, do ou:

pprove	26%
isapprove	57%

If GOP spending and tax plans are passed, will the budget be balanced by 2002?

Yes	12%
No	81%

Whom do you trust more to make decisions about budget balancing?

President Clinton	39%
Congressional Republicans	44%

If you had to choose, would you prefer:

Cutting taxes	35%
Balancing the federal budget	60%

DATA: *NEW YORK TIMES*/CBS NEWS POLL OF 1,077 ADULTS CONDUCTED OCT. 22–24

PEOPLE

SHATTERING THE AFL-CIO'S GLASS CEILING

Linda Chavez-Thompson reflects the union's new diversity

Linda Chavez-Thompson learned at age 16 how to stage a job action. One of eight children born to dirt-poor sharecroppers in Lubbock, Tex., she was elected by her siblings to present their dad with a demand—he had to allow their overworked mother to stay home from picking cotton and get some rest. Otherwise, the kids would refuse to work. "I just walked right in there," she recalls. "But I was sweating the whole way." Her dad acquiesced, boasting later that his daughter was a born labor leader.

Today, the 51-year-old Mexican-American is still standing up for solidarity. She now represents 13 million American workers as the first executive vice-president of the AFL-CIO, a new position ratified by the organization on Oct. 25 after a bitter election battle. And she faces an even tougher fight convincing critics that she's more than a token appointment in a hierarchy that remains mostly white and male.

OUTSIDER. No woman or Hispanic has ever held such a high office in the AFL-CIO's 109-year history. In appointing Chavez-Thompson, the union is trying to respond to changes that have made women and minorities organized labor's fastest-growing segments. Massachusetts Institute of Technology labor expert Thomas A. Kochan calls her election "essential" to recruiting a more diverse AFL-CIO membership. Adds new AFL-CIO President John J. Sweeney: "I wanted someone for my executive vice-president who lived and worked outside of Washington. Someone who knew what it was like to go door-to-door organizing and to come home at night dead-tired and foot-sore."

Labor is fighting tough demographic trends. Membership in the AFL-CIO, a federation of 78 unions, has sunk to 15.5% of the workforce, down from 35% during its heyday in the 1950s. In the past decade, men have slipped from 67% of all union workers to 60%. Meanwhile, women have increased their union membership from 33% to 40%. Blacks now account for 15%, Hispanics 8%.

Chavez-Thompson's mission: tap the growth markets. On Oct. 31, her first day in Washington, she outlined a vague but ambitious plan to reach out to disaffected workers traditionally neglected by the upper ranks of organized labor. Among her responsibilities are coordinating with more than a thousand state federations and central labor councils and leveraging the lobbying power of AFL-CIO support groups such as the Coalition of Labor Union Women. Plus, she will try to pull in new members by forging coalitions with women's and civil rights groups.

Sweeney plans to boost spending on such grassroots organizing seven-fold, to $20 million a year, about one-third of the AFL-CIO's budget. "We need to convince [nonunion] workers that we are the voice that will not back down," says Chavez-Thompson.

Supporters say Chavez-Thompson is well-suited for the job. She's tough as nails, having forged a career as a union organizer for the expanding American Federation of State, County & Municipal Employees (AFSCME) in union-wary Texas. Associates say she combines a tal for schmoozing power brokers wi steely resolve on workers' rights. I 1980, for instance, she helped save h jobs of 33 workers at a San Anto junior college by organizing a driv oust three college trustees.

FEELING HEAT. As an early campa supporter of former Texas Governor Ann W. Richards, Chavez-Thompson wa shy about making use of her access t the governor. One example: In 1992, h enlisted Richards to kill a proposal a would have weakened sentencing gui lines for assaulting correctional offic who are AFSCME members. And her d itancy is in step with the new tone be set at the AFL-CIO by Sweeney and h No. 2, former United Mine Workers Pr ident Richard L. Trumka. As recen as Aug. 31, Chavez-Thompson landed jail on civil disobedience charges w demonstrating with hotel workers in S Francisco.

Still, Chavez-Thompson faces a dau ing challenge. She has taken heat f deigning to run for the newly creat $165,000-a-year job, which critics cons er a waste of money. Others doubt s has the experience to do the job. " the two years that she's served on t AFL-CIO executive council, she's on spoken once," grouses one vice-preside

But Chavez-Thompson discounts t criticism. "I've walked, talked, and do everything a labor leader has need to do to protect her workers. I'm n ashamed," she says. If labor is to rega its place as a major political force, must unite and expand, she says. On again, the sharecropper's daughter mu show she can drive a hard bargain.

By Mary Beth Regan in Washingt

LINDA CHAVEZ-THOMPSON

AGE: 51

HOMETOWN: Lubbock, Tex.

BACKGROUND: Mexican-American; daughter of a sharecropper. Began picking cotton at age 10 fo 30¢ an hour. Joined the American Federation of State, County & Municipal Employees (AFSCME) as a field rep in 1971. Rose to become executive director of Texas council Now, executive vice-president at the AFL-CIO.

QUOTE: "I'm a woman and I'm tar and I'm from Texas. I represent the America that organized labor has tended to overlook."

O ONE IS LAUGHING T BEN LeBOW NOW

may intend to force a spin-off at RJR–or to sell it Liggett

has been quite a year for Bennett 3. LeBow. The Miami financier has leaned up the tangle of companies at oke Group Ltd., his primary holding npany, by spinning off a computer sidiary to shareholders and shedding take in a sports trading-card comy. He has spent money, too, snatch- up a small broker-dealer/investment k and an interest in a Brazilian airne manufacturer.

Then there's his somewhat larg- quarry: RJR Nabisco Holdings p. Together with financier Carl Icahn, LeBow has amassed a % stake in the food and tobacco npany. And on Oct. 30, the two nounced their intention to pro- e a nonbinding resolution to it up RJR's two businesses. If doesn't respond to a positive e on the measure, LeBow eatens to replace its directors h his own. "Why wait?" says Bow. "There's value there to be ocked."

A few months ago, such bluster med laughable. LeBow, after all, ked like a corporate loser—a der who had never raided much all. The Philadelphia native, 57, nded a computer company in the 0s, rescued it from financial diser, then sold out to a rival. Lat- he began putting together small ls, often targeting troubled comies in bids financed largely ough the Michael Milken junkd machine. Mostly, his overtures led in rejection (table).

UGH TALK. Now, however, RJR pears to be taking LeBow and hn very seriously indeed. In a ongly worded rebuff issued on t. 31, the company reiterated t it will spin off Nabisco "at at would be the right time" and med LeBow's attempt to force a paration now "not only impru- nt but... irresponsible." Says CEO arles "Mike" Harper: "I don't re easily, and I don't think he es either, so we are going to ck heads."

What's LeBow up to? He still s lots of cash to burn, flush with ch of the $382 million in profits t from the sale last November of s New Valley Corp.'s Western Union money-transfer business. Indeed, some of the cash from that deal was used to amass his 5 million RJR shares.

More important, though, may be the fate of LeBow's own tobacco business, Liggett Group Inc. Liggett, the nation's fifth-largest cigarette maker, is a weak player in an increasingly tough market. Its share of the low-end market has dropped from 9.9% in 1991 to 5.4% last year, according to the company. And sales of higher-margin branded products, including L&M and Chesterfield, represented just 32% of net sales in 1994, down from 47% in 1991.

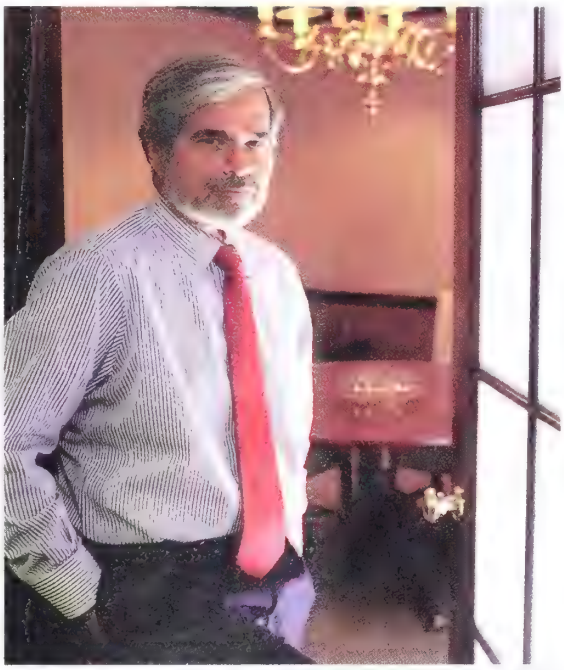
Harper contends that LeBow approached him in May with a suggestion to split the companies and merge Liggett with RJR's tobacco business. Later, Harper says, LeBow suggested that RJR buy Liggett outright for $400 million, a price RJR considered grossly inflated. LeBow denies he ever talked to RJR about an outright sale. On the other hand, he says a combination with Liggett would present a compelling justification for the split-up of RJR's businesses. That, he says, would allow the spin-off to be treated as a tax-free transaction.

While Harper says RJR wants to spin off Nabisco, the issue is timing. The thicket of tobacco liability lawsuits may clear by next year, allaying concern that shareholders of the food company could eventually be found liable for damages. Even so, RJR says it will not split the companies until yearend 1998, or until both can carry investment-grade debt ratings, whichever comes first.

BIG JOB. There's still plenty of skepticism about LeBow's motives on Wall Street, but his interest in RJR has sent the company's shares up 15%. In part, the rush signals investors' frustrations. Gregory L. Jackson, portfolio manager at Yacktman Asset Management Co. in Chicago, which owns about 1.8 million RJR shares, says he would vote for a spin-off, after rejecting a similar resolution last spring. The difference now? "Management's poor ability to run the company. I believed in Harper last time. I don't believe he is doing the right things this time," Jackson says. "He is trying to turn a tobacco company into a food company."

LeBow will have to work harder to convince the likes of Thomas A. Carter, an analyst with USAA growth fund, which owns 3.9 million RJR shares. Carter says he wouldn't support Icahn and LeBow in their bid to force a breakup or higher valuation. His argument: Cash is better invested in the company's growing international business than in a higher dividend. And the food company isn't at its strongest right now. "It might be better to wait," Carter says. LeBow, in other words, should cool his heels a while. It's just not what he wants to hear.

By Gail DeGeorge in Miami and Lori Bongiorno in New York



LUCKLESS RAIDER

Bennett LeBow's major forays

WESTERN UNION LeBow purchased the company in 1987. Bondholders forced it into Chapter 11 in 1991. Its money-transfer business went for $1.2 billion in 1994; part of the $382 million profit from the deal helped finance LeBow's purchase of RJR Nabisco shares.

AMERICAN BRANDS LeBow tried in 1988 to get the food company to buy his Liggett Group. Rebuffed, he acquired a small stake and threatened a takeover. It never happened.

PRIME COMPUTER In 1989, LeBow launched a hostile bid for the minicomputer maker through his MAI Systems Corp./Basic Four. Prime found a white knight. MAI filed and emerged from bankruptcy protection in 1993.

DATA: COMPANY REPORTS, BUSINESS WEEK

COMPUTERS

THE NEW SIZZLE AT SUN

Zippy workstations and Net software are quieting its critics

The computer industry has been predicting Sun Microsystems Inc.'s imminent demise almost from the day it introduced its first whizzy engineering workstations in 1982. If bigger rivals such as IBM and Hewlett-Packard Co. didn't crush it, the pundits predicted, personal computers would soon overtake its workstations. The naysayers seemed to have a point in the early 1990s, when hotter machines eclipsed those offered by Sun and profits sagged. Groans Sun Chief Executive Scott G. McNealy: "It's been 13 years of people thinking we're toast."

Sun hopes it can quiet its critics once and for all on Nov. 7, when it will unveil new workstations three times faster than its current line—its biggest boost in speed since 1989. Armed with a new microprocessor chip and a raft of other technologies, the $17,000 to $60,000 machines will catapult Sun's computers from some of the slowest on the market to some of the fastest. That could renew Sun's faded appeal among chip designers, software engineers, and other demanding buyers. "They're roaring back," says International Data Corp. analyst Thomas G. Copeland.

ALIVE AND KICKING CEO McNealy, whose company has been eclipsed in the past, is tired of "people thinking we're toast"

RAISING THE BAR. The new machines arrive at a time when Sun's prospects already are brightening. Thanks chiefly to accelerating sales of its other computers—servers that run commercial data networks and connect to the Internet—profits for the quarter ended Oct. 1 shot up a surprising 120%, to $84 million, on sales that were up 17%, to $1.5 billion. In recent months, Sun also has electrified the industry with its new Java software, which promises to turbocharge use of the Net's World Wide Web and give Microsoft Corp. fits. The result: Sun's stock price has nearly doubled since July, to more than $76 (chart).

The Mountain View (Calif.) company couldn't have afforded to fall further behind HP, IBM, Digital Equipment, and Silicon Graphics in workstations—still the lion's share of its $5.9 billion in annual sales. In an industry driven by speed, "we had to raise the bar," says Edward J. Zander, president of Sun's hardware unit. Thanks to low prices and a large base of software, IDC figures that Sun will maintain a leading 28% share of the $17 billion market this year—although that's down from 30% last year.

Sun faces a bigger threat than ever from PCs. On Nov. 1, Intel Corp. introduced the Pentium Pro, its next-generation successor to the Pentium chip that powers millions of PCs. Intergraph, HP, IBM, Compaq Computer and others have announced Pentium Pro machines offering higher performance than older Sun machines. Says George Weiss, vice-president for market researcher Gartner Group Inc.: "Sun was in danger of Intel sweeping them off the floor with Pentium Pro."

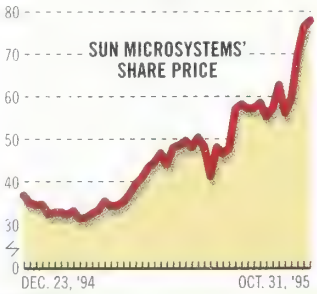
Sun's new machines offer far more than just more raw computing power. Its new UltraSPARC microprocessor also contains new instructions to speed video and 3-D graphics without expensive add-in cards. Moreover, Sun borrows from supercomputers a technique for moving data inside the machine eight times faster than current models. Next year, the company expects to use the same technologies to expand sales of large servers, which are used for building computerized warehouses for corporate data, managing customer help desks, and other such applications.

The Internet could provide an even bigger boost for Sun, which is already the largest Net server supplier. The loudest buzz centers around Java, Sun's software for creating network-based programs. By making it easy to download data and small programs from the Net, Java could eliminate the need for costly disk drives or even an operating system—such as Microsoft's Windows. Cheap Java devices may be years away, but the mere potential is opening doors. Says Zander: "We may do a Java sales call and sell a data warehousing system."

Not everyone is bowled over by Sun's renaissance, of course. Sniffs Silicon Graphics Inc. product manager Peter Wagner: "This is no leapfrog situation for Sun." Indeed, new machines from almost every rival next year could once again pass Sun. And buying Sun's new machines will force many customers to switch to its new operating system—a disruptive move that just might spur some to look at rival offerings. Sun "will see a lot more competition from now on," says David Persak, a computer consultant with DuPont Co. Maybe. But for the first time in years, Sun is on the rise.

By Robert D. Hof in San Francisco

SUN'S RISE



DATA: BLOOMBERG FINANCIAL MARKETS

Grand Marnier, *slightly* less mysterious than chemistry.

COMPUTERS

DEC'S MAN FROM BIG BLUE

Bruce Claflin's tough assignment: Boost PC sales

In Digital Equipment Corp.'s long quest to transform itself from a technology-heavy money-loser into a profitable market-driven winner, its frail personal-computer business is a key harbinger. The results so far speak volumes: While its $2 billion in PC revenues accounted for 15% of fiscal 1995 revenues, they made up just 2.5% of the world market. DEC remains the industry's distant No. 11.

That's why Digital's Oct. 27 announcement that it had hired an outsider to head its PC unit is so critical. The new guy is Bruce Claflin, 44, a 22-year veteran of IBM. Claflin led the effort that produced the ThinkPad, a slender laptop that is one of the bright spots in IBM's PC lineup. And he helped streamline IBM's PC development process, closing down the company's manufacturing plant in Boca Raton, Fla., the birthplace of the IBM PC.

Claflin is a heavyweight, in other words. Digital nabbed him after he lost out on the job of running all of IBM's PC business. His mandate now: to put Digital on the PC map—and to make money. "I don't accept the argument that if you're on a high-growth strategy you can't be profitable," Claflin says. But while the company's PC business has shown some signs of life—sales rose 32% in the quarter ended Sept. 30—it hasn't earned a profit for at least six months.

"VOLUME GAME." Claflin's first task probably will be to light a fire under Digital's PC marketing corps. Chairman Robert B. Palmer and his lieutenants have set a demanding timetable, requiring that shipments of desktop computers, laptops, and servers grow at least twice as fast as the industry rate. That means going retail. While Digital has snared some corporate customers, "PCs are a volume game," says Enrico Pesatori, vice-president and general manager of Digital's computer-systems division. "If you really want to drive volume up, the retail channel is what you need."

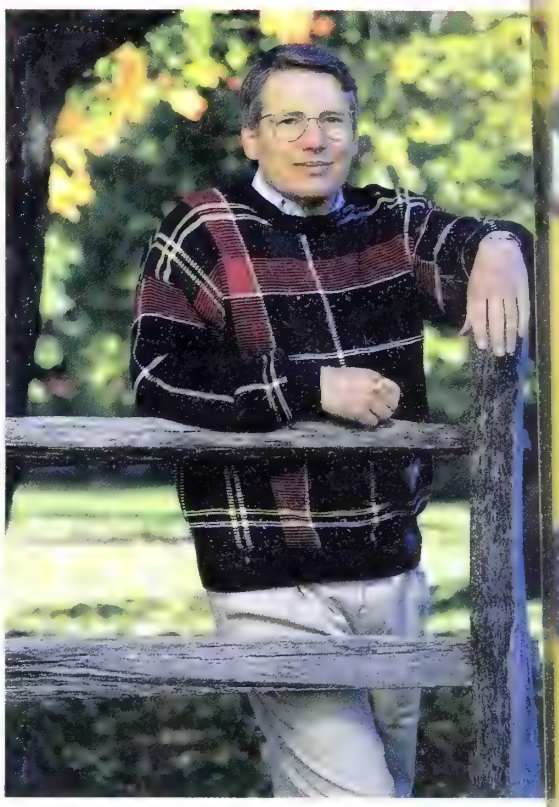
In retail, however, Digital has barely made a dent. Sales to stores in fiscal 1995 accounted for just 10% of overall PC revenues. Since September, the company has added Circuit City Stores and OfficeMax to its retailer lineup. Even with an advertising blitz scheduled to begin Nov. 5, though, the lack of a retail brand name remains a problem. "Digital is going to have a tough go [becoming] one of the five or so shelf-space grabbers in the consumer and retail market," says Richard Zwetchkenbaum, an analyst at International Data Corp.

CHOICE GOODS. Palmer has an ulterior motive here. Success in PCs depends on carefully balancing supply and cost, rolling out a steady stream of new products, and working closely with distributors—all the things, in short, that Digital's traditional computer-systems business could use. "Digital's success or failure in this market is more important than just the PC business," says Lynn Berg, an analyst with Gartner Group Inc. "It's a bellwether of where the company will go from here."

The question: Can Digital ever make money selling plain-vanilla desktop machines through CompUSA? Some analysts believe it would be better served by aggressively pushing products for which it has an advantage, such as servers and laptops. Profit margins are higher, and while both servers and laptops lag behind the consumer desktop mar in sheer volume, analysts see oppor nities for growth. "Digital should trying to go upstream where the pr is," says Jon Oltsik, an analyst w Forrester Research Inc.

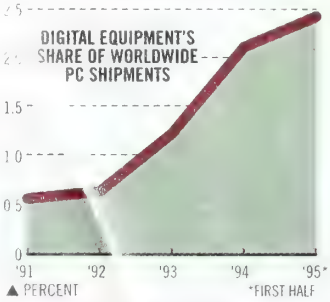
The computer maker is trying. D won raves earlier this year for its Note laptop. It lost sales when man ers failed to forecast demand, but a lysts say the HiNote, while expensi still has untapped demand. DEC a boasts a broad alliance with Micros Corp., which blessed Digital's serve as the platform of choice for the NT o erating system, a growing favorite wi business users. Will that be enough f Claflin, the career IBMer, to turn DE PC unit around? "We're trying to take hill, not defend it," he says. "I mu prefer that, having been on both sides If nothing else, the new guy is up for good fight.

By Paul C. Judge in Acton, Mas



GREAT EXPECTATIONS "I don't accept the argument that if you're on a high-growt strategy you can't be profitable" — BRUCE CLAFLIN

BIT BY BIT



DATA: INTERNATIONAL DATA CORP

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1993

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RETAILING

BLOOMIE'S TRIES LOSING THE ATTITUDE

Its new suburban Chicago store emphasizes comfort over glitz

This is Bloomie's? Large windows flood Bloomingdale's new Skokie (Ill.) store with natural light, and the aisles are wide enough for two baby carriages to pass. A cappuccino bar beckons near the Dana Buchman collection. There's glitz, yes, but without so much plum, black, and neon. Most important, it feels friendly. "You don't feel cramped or rushed," says Julie Drewniak, a 40-year-old customer shopping for her husband and two sons.

Call it a Bloomie's for the 1990s: The famed clothier to the fashion-savvy is giving its stores a makeover. In the next year, renovations at six of the chain's 16 other stores will incorporate elements of Skokie's user-friendly design and merchandising techniques. So will conversions into Bloomingdale's of up to six Broadway Stores in California. The flagship 59th Street store in Manhattan will be transformed over five years.

CLEAR MESSAGE. None too soon. Bloomingdale's trademark Manhattan aura has worn thin, especially west of the Hudson. "The mystique of the store hasn't been transferable" from New York, says retail consultant Alan Millstein. The stores "are either too avant-garde or too humdrum. And in many cases, their prices were too high."

After a much-hyped 1989 launch, sales at the cathedral-like Bloomie's in downtown Chicago have dropped off; ditto at the Mall of America outside Minneapolis. Bloomie's closed its Dallas store in 1990 after disappointing sales. The result: Bloomingdale's Inc. contributed just $1.3 billion to the revenue of parent Federated Department Stores in 1994, only a shade higher than in 1989.

Bloomingdale's chairman, Michael Gould, got the message. In 1991, he succeeded Marvin Traub, who during his 40-year reign had built Bloomie's into a gilded mecca of consumer indulgence. Gould wanted something dramatically different: "a store like someone's home, comfortable and welcoming, a store that puts people in the mood to stay and enjoy themselves," he says.

Although less the micromanager than his colorful predecessor, Gould got involved in everything from the concept of the Skokie store to the nitty-gritty of selecting its fixtures. At Skokie, the first Bloomie's to open during his tenure, he scattered plenty of couches and chairs around the selling floor and installed lighting 50% brighter than in other stores. Unlike the Bloomie's of the 1980s, which employed countless "boutiques" to display designer collections, the new store has an open floor plan with few towering fixtures, allowing shoppers to easily see where they're going.

SERVICE PLAN. The results? Although the company won't release numbers, Store Manager Rich Williams says that in September, sales in his better sportswear area, a critical department, were 60% above expectations, besting revenue of comparable departments in all the chain's other stores. Analysts predict Skokie will well outperform Bloomie's 1994 average of $294 in sales per square foot, though it won't match Nordstrom Inc.'s $380.

BEFORE: *Designer "boutiques," lots of black and neon*

AFTER: *Wide aisles, natural light, couches, and chairs*

Ultimately, though, this battle could be won or lost on service. Chicago focus groups told Bloomie's execs they wanted a "New York store" without an uppity sales staff. In fact, disappointing service has driven the erosion in Bloomingdale's reputation, says Chris Ohlinger, president of Service Industry Research Systems in Cincinnati, which tracks consumer perceptions of retailers. "When you encourage high expectations, a disappointment in service is a catastrophe."

That's why 50 trained "selling experts" are scattered throughout the Skokie Bloomie's, supplementing the regular sales staff. Shoppers such as Leslie Schellie, a 37-year-old attorney and aspiring novelist from Winnetka, notice the difference. "After I publish that trashy best-seller, I'll definitely be shopping at Bloomingdale's," she says. Message: Service beats glitz. Maybe even in the Big Apple.

By Susan Chandler, with Ann Therese Palmer, in Skokie, Ill.

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SOFTWARE

GLITCH OF THE MILLENNIUM

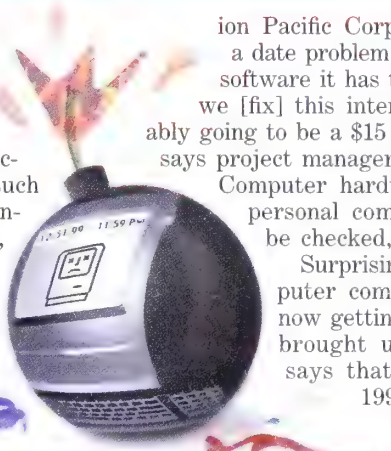
It's 2000. Do you know where your data went?

Around the computer industry, it's known as the millennium bug. On Jan. 1, 2000, computers the world over may stop computing—or, at the very least, may start making hundreds of miscalculations. That's because programmers for years economized on expensive computer memory by expressing the year in dates using just two digits—rendering, say, Nov. 1, 1995, as 11-01-95.

The problem: When the new century begins, most computers will interpret 01-01-00 as Jan. 1, 1900, not Jan. 1, 2000. Everything from driver's-license expiration dates to interest-payment calculations could be fouled up.

As usual, though, with adversity comes a business opportunity. On Oct. 30, IBM launched a service to help customers avert the 2000 crisis. Similar offerings—everything from consulting services to software tools that automatically search out and change date references—are being pushed by such companies as Andersen Consulting, Coopers & Lybrand, and Cap Gemini Sogeti.

There's plenty of demand: Gartner Group Inc., a consulting outfit, figures that 20% of business software will falter this year because of problems involved in computing the year 2000—and 90% will fail by 1999 if nothing is done. Worldwide, companies will have to spend $300 billion to $600 billion on fixes, Gartner figures.



LINE BY LINE. Solving the date glitches can be complex. Most companies use thousands of software programs—some that are decades old. Finding every embedded date can involve sorting through each program line by line. Union Pacific Corp. figures it's a date problem with 82% of software it has tested so far. "If we [fix] this internally, it's probably going to be a $15 million project," says project manager Charles Pa. Computer hardware—including personal computers—has to be checked, too.

Surprisingly, many computer companies are only now getting their products brought up to date. IBM says that by the end of 1996 all its software and hardware will be designed without the millennium bug. Some other computer companies won't have the fix done until 1998. And simply worrying about the year 2000 may be shortsighted. "We are requesting that vendors certify that their products will work to the year 2100," says John F. Burns, a vice-president at Canadian Imperial Bank of Commerce. Forewarned is forearmed.

By Ira Sager, with William J. Winkler, in New Y

OLYMPICS

A GOLD MEDAL FOR GRIT

Three small businesses won't budge for Coke's Olympic park

From his sixth-floor office, Billy Payne can watch his Olympic vision come to life. Just below, bulldozers clear what will become the 21-acre Centennial Olympic Park, designed to serve as the heart of the Games. Next to that, Coca-Cola Co. is readying a 14-acre virtual-reality park. The construction, boasts Payne, president of the Atlanta Committee for the Olympic Games, represents "one of the lasting impacts of the Olympics in Atlanta."

There's just one problem. Amid the heaps of red earth, three little buildings still stand—and their owners pledge they will be there when the games open next July. Atlanta Mayor Bill Campbell says their presence will be no big deal: "It's like looking out over a beautiful beach, and there's a piece of paper on the beach, and all you think about is the piece of paper." But the holdouts clearly are a sore point. Planners intend to erect tall structures around them to hide them from view.

Too bad, says Ed Taylor, owner of a printing company located on a dusty plot Coke wanted to fold into its glistening $20 million attraction. "They said they would welcome me as a neighbor," he says. "I said, 'Shoot, I was here first. I'll welcome you as a neighbor.'" He and two other small-business owners want top dollar for property they say has appreciated 1,300% since Payne and Coke announced plans for the Olympic development last summer.

Taylor says Coke offered him $95 a square foot for the site six months a He asked for $115, plus a new build five miles north of downtown. Co balked. Olympic planners at the co pany say they negotiated in good fa with the property owners and offer prices above market value. The ow ers' complaints, says a spokeswom are "not a good representation of h we transact our business and especia how we transact business in our tow

It's much the same at two other ho outs. Payne says property owned Maxwell & Hitchcock, a constructi equipment outfit, was under contract $1.9 million—until the company upp its price to $9 million. Ron Miller, vi president of Maxwell & Hitchcock, sa those figures are wrong b wouldn't comment furth Superior Printing Co. Gene Manager Pierce Morris says company turned down Cok "woefully inadequate" bid.

The standoff continues. T renegades say all they want their piece of the pie. "I'm ju trying to end up on top," Ta lor says. Maybe Payne shou try offering him the toughe tickets in town: seats at th opening ceremony.

By Nicole Harris, wi David Greising, in Atlan

HOLDOUT: *"I was here first," says printer Ed Taylor*

ED BY KEITH H. HAMMONDS

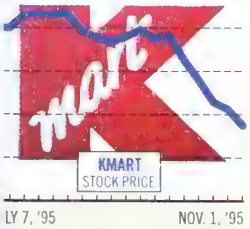
RUCIAL DEFEAT DOW CHEMICAL?

TIDE MAY HAVE FINALLY d against Dow Chemi- After successfully dodg- uch of the liability in the ve silicone breast-implant tion, the manufacturer it on Oct. 30 with $14.1 n in compensatory and ive damages. The Neva- ry's verdict, which Dow to appeal, marks the time the company has held solely responsible juries allegedly suffered se of defective implants by now bankrupt Dow ing, jointly owned by Chemical and Corning. held, the verdict could state Dow Chemical: It lefendant in over 13,000 nt-related lawsuits.

CLOSING BELL

MART DISCOUNT

o to Floyd Hall: Keep qui- mart's chairman met with stors in October, trying to el concerns the discounter candidate for Chapter 11. bragged of the "massive ge and progress" Kmart le in closing stores, selling ts, and cutting costs. The e he talked, though, the e Wall Street obsessed ut the bankruptcy. "Specu- n about Chapter 11 tends ed on itself," says Pru- tial Securities analyst ne Hood. By Nov. 1, Kmart res fell to $8.50, a 13-year



DATA BLOOMBERG FINANCIAL MARKETS

MURDOCH KEEPS HIS EYE ON THE BALL

WHO'S THE BIGGEST SPORT IN TV-land? Unquestionably, News Corp. Chairman Rupert Murdoch. Eager to attract subscribers for his worldwide satellite-television operation, Fox is putting $300 million into a new joint venture with cable giant TCI. The new business, with nearly $3 billion in assets, will combine TCI's Liberty Sports network of regional sports channels with News Corp.'s FX channel. "We have plenty of dry powder" to bid on premier sports events, says Liberty CEO Peter Barton. Fox and the new venture may make joint bids to air major league baseball, pro basketball, badminton, and anything else that delivers eyeballs.

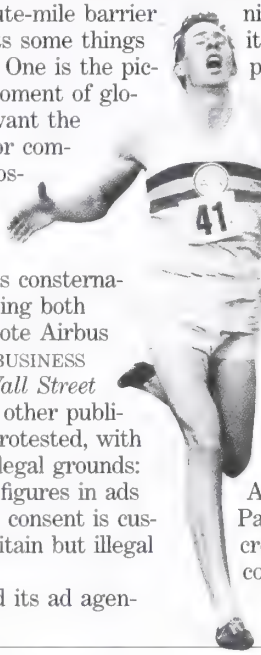
APPLE'S SHARE OF THE PIE PICKS UP

FINALLY, APPLE COMPUTER CEO Michael Spindler has a little breathing room. Faced with what he had called "the most challenging quarter in our history," Apple ended a year-long slide, boosting its share of personal computer sales to 9% in the third quarter from 7.4%, says market watcher Dataquest. The secret: the most aggressive pricing in Apple's history, plus some creative procurement techniques. Confronting widespread parts shortages, Apple agreed to longer-term contracts with suppliers and resorted to barter, trading memory chips for CD-ROM drives in one case.

Without the supply problems, says Dataquest's Kimball Brown, Apple could have picked up another half-point of share. "There's more demand for Macs than they can handle," he says. The downside: Gross margins fell to 20.7% from 27.2% a year ago.

HEADLINER: ROGER BANNISTER

SIR ROGER'S BEEF



Britain's Sir Roger Bannister, the runner who crashed the four-minute-mile barrier in 1954, wants some things kept private. One is the picture of his moment of glory: "I don't want the photo used for commercial purposes," he says. Another is his name.

Imagine his consternation upon seeing both used to promote Airbus Industrie in BUSINESS WEEK, *The Wall Street Journal*, and other publications. He protested, with considerable legal grounds: Using public figures in ads without prior consent is customary in Britain but illegal in the U.S.

Airbus and its ad agencies agreed to make a "substantial" donation to Bannister's favorite charity. And they're placing an apology in some publications where the ad appeared. "A mistake has been made, but it's been acknowledged and corrected to everyone's satisfaction," says David Swanston, of Stackig Advertising & Public Relations, which placed the ad in the U.S. Airbus and Osprey Park, the agency that created the ad, won't comment.

By Heidi Dawley

CHIPMAKERS STAY IN THE CHIPS

WILL SALES OF SEMICONDUCTORS ever tank? Don't bet on it. On Nov. 1, the Semiconductor Industry Assn. predicted that worldwide chip sales will grow 26% in 1996, to $185 billion. That would be down considerably from this year's expected 44% jump. However, few chipmakers are likely to complain: It will mark the fourth straight year of 25%-plus growth. The association predicts uninterrupted growth through at least 1998, driven by increasing pervasiveness of chips in electronic products.

CORDIS' COLD SHOULDER

CORDIS ISN'T SURRENDERING without a fight. The $443 million manufacturer of medical devices on Nov. 1 rejected as inadequate Johnson & Johnson's $1.7 billion hostile takeover bid, announced two weeks earlier. J&J, which made its move after failing to spark interest in a friendly deal, is eyeing Cordis' line of angioplasty balloons, which would complement J&J's own stents, minute coils that prop up open arteries. Cordis stock jumped to $112 on speculation that J&J would sweeten its bid or that a competing offer may be in the works.

ET CETERA . . .

- KLM threatened to sue Northwest Airlines over a shareholder rights plan.
- SoftKey made bids for Learning Co. and Minnesota Educational Computing.
- Cummins Engine, facing a weak truck market, will cut 2,000 jobs, 7% of its total.
- PP&L Resources rejected a $4.3 takeover bid from Peco Energy. Peco backed off.

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'ED BY OWEN ULLMANN

'HY CLINTON IS DISTANCING IMSELF FROM THE DEMS

me and again, surveys reveal voter disgust with the :wo parties. The Democrats are wedded to big government. The Republicans are heartless. And the public ns for a third choice. So the poll-obsessed White House :ome up with a novel way to ride the wave: Bill Clinton, pendent candidate for President.

nce the GOP takeover of Congress, Clinton has been cutties to Democrats and party positions he backed in 1993 1994. The goal is to smooth relations with Republicans appear to be able to get things done. So it's urprise resentment is pervasive among old ; who think he's selling out. "He's the Greta)o President—he wants to be alone," sniffs resentative Louise M. Slaughter (D-N. Y.).

ANGULATION." Clinton's recent repudiation is 1993 tax hike, which he partly blamed)emocrats, is only the most vivid example of)seudo-independent tack. His startling em- e of Medicare cuts and a balanced budget spring undercut House Democrats. Then ndorsed a tough GOP welfare-reform bill, ng reluctant Senate Democrats little choice to go along. Finally, on Oct. 30, he ignored ctions from the Congressional Black Caucus signed a Republican bill to continue stiff ences for crack cocaine convictions.

ADVISER MORRIS: *Playing to voter disgust*

n't Clinton worried about alienating sup- ers—liberals, moderates, blacks, environmentalists, la- and Democratic governors and mayors? Hardly. It's a calted strategy, courtesy of Dick Morris, a Republican ultant and Clinton confidant. Morris, who calls his game "triangulation," believes Clinton can attract indepen- :s by becoming a triangle's apex that towers over the opng points of tired Democratic ideology and GOP extremism. ome White House advisers say the tack is working, point- to Clinton's poll ratings that have been creeping up tod 50%. "There is a focus, unity, and common purpose not seen in this White House before," says one adviser.

But masquerading as an independent is risky. Having won just 43% of the vote in 1992's three-way contest, Clinton may shatter his base in his eagerness to lure the middle. Although Clintonites insist Democrats will get on board to keep a Republican out of the White House, they may have forgotten the bitter lesson President Carter learned in 1980, when he turned his back on much of his party's base: Millions of disgusted Democratic voters stayed home, and others, including union households, voted Republican.

Already, some union leaders have vowed to focus resources in '96 on close House matchups rather than the Presidential race. And if retired General Colin L. Powell runs as a Republican, Clinton's dissing of the Democrats may spark a stampede of party members, especially blacks, to the GOP.

Clinton meanwhile could have trouble governing. Many Democrats won't feel compelled to back him on tough votes. Indeed, on Oct. 30, half the House Democrats joined Republicans opposed to Clinton's request to send U. S. troops to Bosnia. "He can end up with no allies," says Democratic consultant Brian Lunde.

To other critics, Clinton's frequent policy shifts smack of opportunism. That's why Hill Democrats are dreading the coming negotiations on the GOP balanced-budget plan. They fear that despite all his breast-beating about GOP excesses, Clinton's desire to cut a deal will prompt him to cave—leaving his party brethren in Congress to take the heat as obstructionists.

For a President atop a golden triangle, it's not a bad thing now to have Hill Democrats angry at him. But Democratic pros say Clinton may end up in a political box—romancing voters unsure of where he stands and wondering why they should reelect a man who treats his friends so shabbily.

By Susan B. Garland

CAPITAL WRAPUP

UNION WITH THE GOP

Even such a loyal Democratic mainay as organized labor can be pragatic when the political winds shift: nions are giving more than ever to ngressional Republicans, now that ey rule Capitol Hill. During the st half of 1995, labor PACs gave 24% their $4.8 million in contributions GOP members of Congress. That's from only 5% in the 1993-94 elecon cycle, according to the Center for esponsive Politics, a nonpartisan fince watchdog group. Maritime unions gave most heavily to GOP lawmakers—58% of their donations. Why? They hope to block GOP legislation that would end federal subsidies for the construction of U. S. ships.

IRE AT THE ITC

▶ Talk about strange bedfellows. Republican budget-cutters and Democratic trade hawks in Congress have joined forces to gut the International Trade Commission. ITC Chairman Peter S. Watson is under fire for being reluctant to punish importers who illegally price goods below cost. Congress may cut the ITC's '96 budget 20%, to $38 million.

STUDYING THE POLLS

▶ The White House hopes to score points with a new student-aid giveaway. Political adviser Dick Morris and communications specialist William E. Curry Jr. are eyeing a plan that would offer students a free year at a community college, or $1,200 in tax credits for tuition. Though some Clintonites knock the idea as a gimmick, the President could unveil the plan by mid-November.

CANADA

OTTAWA DODGES A BULLET —BUT MORE ARE ON THE WAY

Quebec's separatists will keep fighting, and fiscal reform seems even farther off

The night of Oct. 30 is one most Canadians will never forget. From remote fishing villages in Newfoundland to coffee bars in Vancouver, citizens anxiously watched the see-saw battle for the future of Canada unfold in Quebec. Tensions soared as the *Oui* vote for a sovereign Quebec surged to an early lead that it held until nearly two-thirds of the vote had been counted. Then—as the *Non* vote to keep Canada united finally pulled ahead for good—supporters of a united Canada erupted in downtown Montreal, shouting, "Canada! Canada! Canada!" as they twirled Maple Leaf flags.

BITTERSWEET: *Montreal Non backers revel in victory, but Bouchard threatens to try again*

Outside Quebec, there's almost universal relief that Canada has averted what would have been the worst crisis in its 128-year history. The stock, bond, and currency markets rebounded after a week of scarifying losses. And the Clinton Administration was glad that it didn't have to contend with the possible breakup of the U. S.'s largest trading partner. That would have plunged Canada into recession and severely disrupted the working of the North American Free Trade Agreement, at a time when Mexico's economy is already suffering.

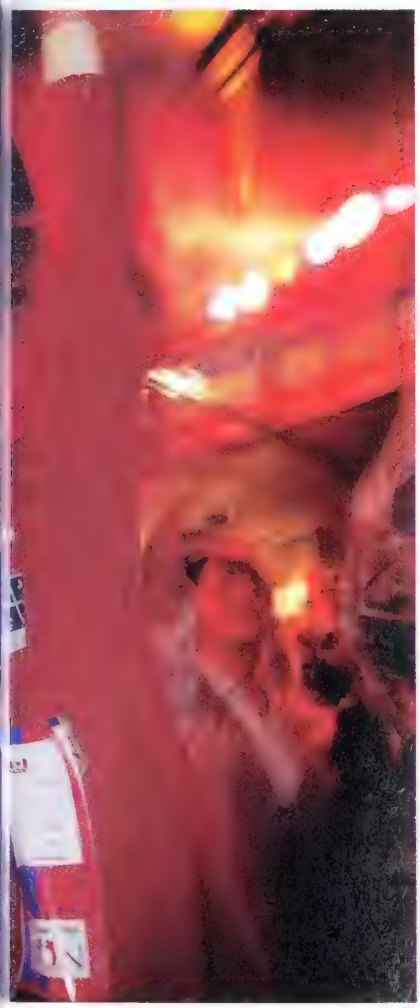
BADLY SHAKEN. But the closeness of the vote left Canada's leadership badly shaken. Prime Minister Jean Chrétien is already being widely condemned for nearly losing the biggest fight of his life, and some feel he should resign. Now, if he does not heed the voters' message by moving more quickly to meet Quebec's demands, he faces the same nightmare all over again. Already, the emboldened Lucien Bouchard, leader of the separatist campaign, is threatening to hold and win another referendum on sovereignty within as little as two years.

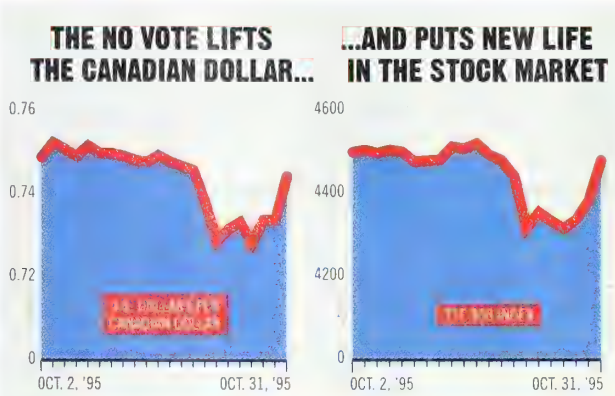
The close results also underscore the deep divisions not only within Quebec but throughout Canada. Most English Canadians were stunned that the separatists came so near to winning. It wasn't until the last 10 days of the campaign that English Canada even woke up to the separatist threat. And there's no consensus on how the federal government should respond now. While leaders in Ottawa, Toronto, and Montreal support some form of reconciliation, western Canadians oppose any special deals for Quebec and are instead calling for a radical decentralization of federal powers. Meanwhile, the depressed maritime provinces, which rely heavily on federal subsidies, worry that if Quebec goes, they will be geographically and economically cut off, as Canada becomes a kind of North American Pakistan.

The lingering bitterness betwe

nglish and French Canadians ill also spill over into budget-itting efforts. Canada has to educe hugely expensive social rograms to relieve a crushing deral debt loan, amounting to 5% of gross domestic product. ut if Ottawa now carries out its to such sensitive social rograms as unemployment in-rance and old-age pensions, ouchard will viciously attack e federal government. The ose vote "bodes ill for Cana-a's long-term fiscal responsibil-y," worries Stanley H. Hartt, EO of Camdev Corp. and chief staff to former Prime Minister Brian ulroney.

DETERIORATION." The continuing bat-e over separatism casts an even dark-cloud over the Quebec economy. Que-ec Premier Jacques Parizeau, 65, who nounced his resignation the day af-r the failed vote, devoted all his ener-es to sovereignty. That has produced a evere deterioration in Quebec's fiscal tuation," warns Toronto-based Domin-





DATA: BLOOMBERG FINANCIAL MARKETS

ion Bond Rating Service. Indeed, while Quebec's debt burden is second only to depressed Newfoundland's, "it is the only province that has not vigorously attacked its fiscal problems," according to a DBRS report. Under Parizeau, Quebec ran Canada's highest deficit as a percentage of provincial GDP and imposed some of the highest tax rates in North America.

Given the near-victory, Parizeau's suc-

Quebec must take its fiscal medicine or "massively lose the confidence of the international business community," says the Business Council's d'Aquino

cessors will now be sorely tempted to postpone any painful spending cuts until after another referendum. "But Quebec has no choice," says Thomas P. d'Aquino, president of the Business Council on National Issues, which represents Canada's largest corporations. Either Quebec takes its fiscal medicine, he says, "or Quebec will massively lose the confidence of the international business community."

That confidence has already been badly shaken by a class-war referendum campaign in which the separatists sharply attacked the Quebec business elite. Tensions were further exacerbated by Parizeau's claim that "we were beaten by the power of money and the ethnic vote," a reference to Quebec's English-speaking and immigrant minorities. Such bitterness explains a continuing exodus of young English-speaking Quebeckers that is weakening the province's economic vitality.

English Canada is equally split. Quebec has long been demanding changes to the Canadian Constitution that would recognize it as a "distinct society" needing more autonomy and powers to adequately protect North America's only large francophone culture. But the western provinces are especially leery of giving Quebec anything like preferential treatment. Says Alberta Premier Ralph Klein: "[Distinct society] cannot be construed in any way, shape, or form [to] give Quebec special status."

IRRESISTIBLE MOMENTUM. The lack of consensus in English Canada puts Chrétien in an uncomfortable spot because he has almost no chance of striking a compromise with the separatists. They control not only the Quebec government but also two-thirds of the province's seats in the House of Commons. "Any proposals made to Quebec would be roundly rejected and countered by an impossible list of demands," predicts Camdev's Hartt. The reason: It's in the interests of the separatists to prevent any genuine solution from happening. What they want is another referendum—soon.

Before they risk holding such a vote, the ruling Parti Québécois is likely to formally install Bouchard as premier after Parizeau leaves at the end of the year. In a provincial election, Bouchard would probably win by a landslide. He would then have a mandate to call another referendum as soon as he felt the sovereigntists could win.

For many Quebeckers, sovereignty now seems to have an irresistible momentum. In 1980, when the first Quebec referendum on sovereignty was held, the separatists were crushed by a 20% margin. This time, they lost by just 1.2%. The betting is that unless English Canada can somehow meet Quebec's aspirations, next time the Québécois will finally get their own country. Far from healing the divisions that threaten to tear Canada apart, the close *Non* vote ensures that the epic struggle will continue. Meanwhile, the hard steps that both the country and the province need to take may be postponed.

By William C. Symonds in Toronto

UNDER FIRE Ex-President Roh Tae Woo was grilled abo the $650 millio he may have amassed from such deals as th Seoul-Pusan high-speed trai

SOUTH KOREA

THE SLUSH FUND THAT'S SHAKING UP SEOUL

Pols, *chaebol* bigwigs, and foreign companies may be affected

At 10 a.m. on a freezing Nov. 1, a thoroughly shaken Roh Tae Woo appeared before government prosecutors. The former South Korean President and four-star general had been summoned to answer questions about his $650 million secret slush fund. The interrogation lasted a grueling 18 hours.

The Roh revelations are rocking the nation's politics as well as business leaders and their U.S. and European partners. President Kim Young Sam, who succeeded Roh in 1993, has ordered a full investigation into which companies gave money to Roh—and for what (table). Says Kim: "I want nothing to be left out."

FALSE NAME. The scandal began to unfold on Oct. 19, when an opposition lawmaker produced copies of the passbook of a secret bank account. An executive of Shinhan Bank confirmed that the account, containing $40 million, was listed under a false name. It turned out the depositor was an assistant to Roh's head bodyguard. Under questioning, the two men confirmed the existence of other secret accounts. So far, the prosecution has located about $250 million held in various institutions. Roh says he spent the rest, though it's not yet clear whether it was for political reasons or for personal gain.

Opposition members of the National Assembly are having a field day speculating on the sources of Roh's funds. The favorite target seems to be General Dynamics Corp. The reason is that in 1989, the government decided to buy F-18s from McDonnell Douglas Corp. as Korea's main fighter aircraft. But that decision was abruptly overturned in March, 1991, and the government chose GD's F-16s instead. Korean press reports say Kim Jong-Hwie, Roh's national security adviser, helped broker the deal. He has recently sought political asylum in the U.S.

Although the allegations about GD have come up before—and been denied—the emergence of Roh's slush fund is giving the charges new life. "Roh received about $140 million from General Dynamics following the reversal of an earlier decision to buy F-18s in favor of F-16s," charges Kang Chang-Sung, an opposition Democratic Party member. GD notes that in 1991, the General Accounting Office issued a report conc ing that neither GD nor its consulta made any payments violating U.S. la Says a GD spokesperson: "There is ab lutely no truth to this allegation."

Other projects in which Roh was s pected to have received bribes incl the $12 billion project to build You jongdo International Airport near chon. Bechtel Group Inc. and seve Korean companies are designers or c tractors. A Bechtel spokesman der any illicit payments were made. On o er deals, GEC-Alsthom was not av able for comment, and Howaldtswer Deutsche Werft said its submarine sa were not affected.

NERVOUS TYCOONS. Most experts do that foreigners paid money directly Roh. Their Korean partners are un greater suspicion, however, so *chae* tycoons are nervous. Giv popular sentiment agai the Korean groups, brib convictions could send names to prison.

One group that co face difficulty is Sunkyo Chairman Chey Jo Hyun's son is married Roh's daughter, and pre reports say he is suspect of helping Roh hide so of his ill-gotten weal "There could be names t no one would like to kno says a Daewoo Corp. exec tive. No Korean compa has responded to t mounting allegations.

President Kim denies that he r ceived any funding from his predecess If his denial sticks, he may be able use the scandal to break the pattern dirty political links that has dominat Korea. Ironically, that could also bene Korean companies, who pay hefty pe centages of their income for "contrib tions." Obviously, there is a great deal cleaning up left to be done.

By Laxmi Nakarmi in Seo

SOME KOREAN DEALS UNDER SUSPICION

WEAPONS

PURCHASE OF F-16s Samsung/General Dynamics/$4.5 billion
SUBMARINES Daewoo/HDW/Value not available
FRIGATES Daewoo/Value not available

SEOUL-PUSAN HIGH-SPEED RAILWAY

SUPPLY OF LOCOMOTIVES GEC-Alsthom/$2.2 billion
CONSTRUCTION WORKS Hyundai, Samsung, Daewoo/$7.2 billion

YOUNGJONGDO AIRPORT

MASTER PLAN Bechtel/Value not available
CONSTRUCTION Hanjin, Hyundai, Samsung, Halla/Not available

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JAPAN

'MADE IN AMERICA' ISN'T THE KISS OF DEATH ANYMORE

The strong yen and smarter marketing are boosting U.S. goods

It has long been a refrain among U.S. executives bent on expanding into markets across the Pacific: Let's pass up Japan's tough markets and go for booming China and Southeast Asia. Yet when President Bill Clinton presses the flesh with American business leaders during his mini-summit with Japanese Prime Minister Tomiichi Murayama on Nov. 20, he won't be hearing the "Japan Bypass" song as much as he might hear a new tune titled "Cracking Japan."

American companies are making intriguing inroads into Japan's high-tech, auto, consumer goods, and retailing markets. Sure, a turbo-charged yen that's up 26% vs. the dollar since 1993 is one reason, because it makes U.S. products so attractively priced. Yet subtle changes in buying habits, cracks in a fortress-like distribution system, and smarter marketing could set the stage for sustained growth in U.S. imports. "In the last two years, more changes in Japan [retailing] have happened than in the last 40," says Takao Kondo, president of Budweiser Japan Co.

BIG SPLASH: *Gap is opening a store in the Ginza*

SHATTERED MYTH. Taken together, these trends explain why Japan's trade surplus with the U.S. declined 14%, to $23 billion, for the six-month period ended in September—the first year-on-year drop since 1991 (chart). True, the falloff owes much to the re-import of Japanese autos from U.S. transplant facilities, and some of Japan's export momentum has merely shifted to offshore manufacturing centers. None of the U.S. gains mean that all the barriers have suddenly vanished.

Still, sales of such U.S. products as autos and personal computers are expected to continue to increase. The Detroit auto makers are getting more serious about selling in Japan. At the recent Tokyo auto show, Ford Motor Co. unveiled a right-hand version of its Taurus wagon and sedans that will hit the showrooms in 1996. Chrysler Corp. did the same with its compact Neon, which Chairman Robert J. Eaton hopes will shatter the myth "that U.S. companies aren't making a big enough effort to meet the needs of Japanese consumers."

Some of the biggest gains are now being scored in Ja[illegible] long-coddled high-tech sector. Mot[illegible] Inc. has grabbed about 14% of Ja[illegible] recently deregulated and now boo[illegible] cellular-phone market. And U.S. [illegible] sonal-computer makers, led by Com[illegible] Apple, and IBM, have grabbed 30[illegible] Japan's $9 billion PC market by pr[illegible] their products 20% to 40% below t[illegible] of key rival NEC Corp.

U.S. computer makers will also [illegible] a big boost from Microsoft Corp.'s [illegible] 23 launch of English and Japanese [illegible] sions of Windows 95 in Japan. Micro[illegible] will peddle Win95 not only in tr[illegible] tional computer retail chains but [illegible] through Japan's convenience giant I[illegible] son's, which has 5,400 outlets. [illegible] would be disappointed if we don't [illegible] 4 million copies a year," says a spo[illegible] woman.

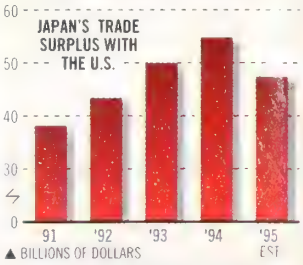
The ferment in Japan's notor[illegible] multitiered distribution system expl[illegible] many of the U.S. gains. The grow[illegible] clout of Japanese discounters, for [illegible] ample, is offering U.S. companie[illegible] unique shot at bypassing the nati[illegible] price-gouging wholesalers. Packard [illegible] Electronics Inc. is doubling its orig[illegible] 1995 sales target to 120,000 pers[illegible] computers, thanks to its tie-up with [illegible] counter Daiei Inc.

WHY NOW? The relatively new tr[illegible] among Japanese consumers to dem[illegible] value for their money also offers [illegible] opening for U.S. retailers. Gap Inc. [illegible] cently opened an 8,350-square-foot st[illegible] in the heart of Tokyo's ritzy Ginza [illegible] trict, betting consumers will flock to [illegible] array of value-priced casual wear. S[illegible] ilarly, Campbell's Soup Co. is tak[illegible] aim at Ajinomoto Co.'s dominance [illegible] Japan's $500 million soup market w[illegible] the rollout of four imported produ[illegible] in September. Why now? The drive [illegible] convenience so powerful in the U.S [illegible] sweeping into Japan.

No one is arguing that the long-te[illegible] competitive battle is over, or even t[illegible] the Americans will be able to wipe [illegible] their trade deficit w[illegible] Japan, still expected [illegible] run about $47 bill[illegible] this year. But the J[illegible] anese are seeing m[illegible] goods stamped "m[illegible] in America." If th[illegible] gains prove susta[illegible] able, American com[illegible] nies that have resor[illegible] to bypassing Japan [illegible] certainly come to [illegible] gret it.

By Brian Bremn[illegible] with Edith Hill U[illegible] dike, in Tokyo

THE TURNAROUND IN U.S.-JAPAN TRADE



DATA: JAPANESE MINISTRY OF FINANCE
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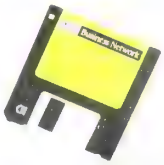

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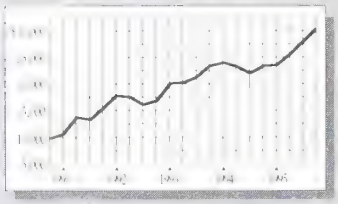

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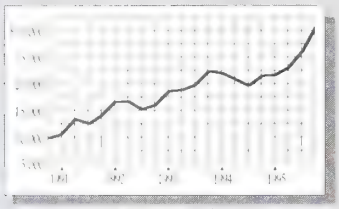

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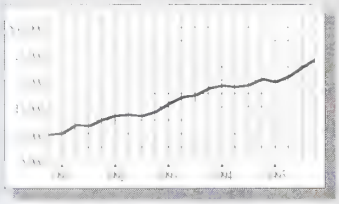
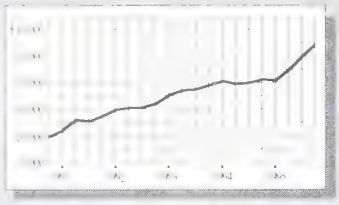


Value of investment: $24,180
Average annual returns (as of 9/30/95):
1 year +18.57% 5 year +19.31% Since inception +18.32%

NEUBERGER & BERMAN GUARDIAN



Value of investment: $27,387
Average annual returns (as of 9/30/95)
1 year +32.26% 5 year +22.32% 10 year +16.16%

MORNINGSTAR *Data provided by Morningstar, Inc. as of 9/30/95. Funds selected from the Schwab Mutual Fund Select List (Second Quarter'95). These and 350 other funds are available through the Schwab Mutual Fund OneSource*

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RACY CARS? THIS CAN'T BE VOLVO

Will the stripped-down company win with sleek new models?

In the sleepy seaport of Göteborg, Volvo's head office perches serenely atop a hill dotted with swaying pines. From his window, Chief Executive Sören Gyll peers down at Volvo City, a vast and orderly manufacturing complex where Volvo's cars, trucks, and buses are turned out.

This placid setting gives no hint of the turbulent times Volvo has been going through. In the two years since he killed a planned merger with France's Renault, the 54-year-old Gyll has put some $6.5 billion in assets, from an investment bank to a brewery, on the block. Gyll is using the proceeds to produce a new car model every year for the next five years, sleeker and faster versions that break away from Volvo's boxy look.

STELLAR RETURNS. But going back to Volvo's basic business hasn't settled the nagging question of the company's future, despite strong sales that should come in this year at $26 billion, and a surge in estimated pretax earnings to $2 billion. Some company veterans think the new models stray too far from Volvo's core image. And many shareholders were dismayed by first-half results. Thanks to strong exports and a weak krona, operating profits did spurt 34%. But unexpectedly high expenses forced first-half margins down in autos, from 4.3% to 3.7%. That weakness could really hurt once auto markets sag. Some investors wonder if cars will ever match the stellar returns of the truck division.

Sören Gyll isn't satisfied with Volvo's performance either. "It's not good enough," he says flatly. But, he points out, progress is being made. After asset sales, Volvo will have $4 billion in cash by yearend 1996. While it took 10 years to produce the 800 series, new models now take two years.

Gyll has also set a goal of boosting annual auto sales 40%, to 500,000, by 2000. Already the 850 model, which features side air bags, has boosted Volvo's share of the U.S. luxury market a full percentage point, to 8%. Then there are the new models. Later this year the S4, a $27,000 curvy midsize compact, debuts to compete against Audi, BMW, and Mercedes in Europe. A four-wheel-drive sedan, a convertible, and the first two-seater coupe in 25 years will follow over the next two years. A sports utility vehicle is on the drawing board.

GYLL AND AN 850 MODEL: *How to broaden the appeal?*

Yet inside the company numerous rows have broken out over this new direction. A company source says brand managers, called the "image police" internally, fret that the designers, interested in speed and performance ris alienating Volvo's loyal base of cu ers, who want safety and environm friendliness in a car.

One sign of this conflict surfac the U.S. Dealers eager for new ucts recently were surprised to that they won't be getting the ne compact as promised. According t insider, some senior executives fel smaller, high-performance S4 v undermine the company's "safety image in the U.S. as well as driv marketing costs. A spokesman says ing the S4 in the U.S. just wasn't nomically feasible.

NOTHING DOING. Meanwhile the Sw shareholders who opposed the Re alliance are still worried. Lars-Erik Forsgardh, man director of the Swedish As tion of Small Shareholders: would like to see a more ag sive dividend policy. The co ny has accumulated so cash, it has become a huge get for a raider." Volvo sh have languished at about $2 the Stockholm exchange. other concern is that Volvo needs a partner to share d opment costs.

Nothing doing, says "Mergers are one hell of a he states. But Volvo's not g it alone, exactly. It's for mini-alliances on specific proj In a plant in the Netherl for example, the same t produce Mitsubishi M Corp.'s Carisma and Volvo's using the same platform. Another ance is with Britain's TWR, the sp car maker that recently built the lin edition Jaguar XJ220. TWR will pro a coupe and convertible for Volvo, u the 850 platform.

These limited deals make sens Volvo, as Gyll certainly doesn't v his company to be another corporat pawn. But only Volvo's performanc the next recession will show if Gyll escape the attention of the auto g and bring his grand plans to fruitio

By Paula Dwyer in Göteborg, Keith Naughton in Detroit

FOCUS ON CARS

By yearend 1996, Volvo will have sold $6.5 billion in assets, including stakes in Hertz, Pharmacia, and Renault. Volvo will be left with cars, trucks, and construction equipment.

MAKE MORE MODELS

Volvo wants to broaden its appeal with a four-wheel-drive sedan, a coupe, a convertible, and maybe a sports utility vehicle and minivan.

PRODUCE MORE FLEXIBLY

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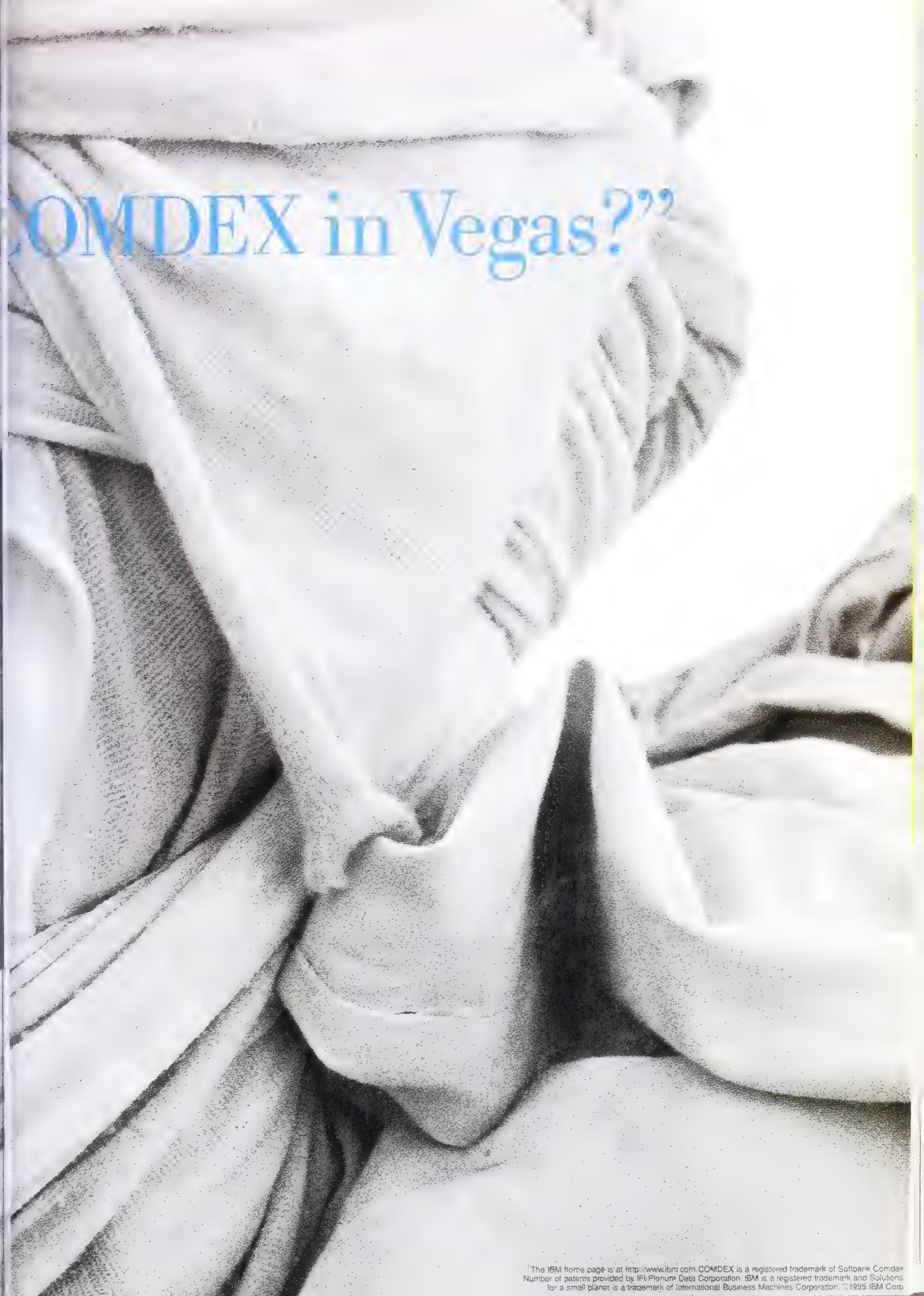

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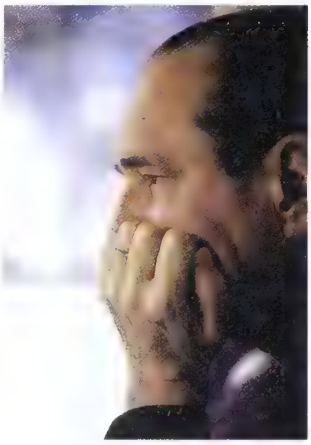
EDITED BY ROSE BRADY

FRANCE: IS CHIRAC FINALLY READY TO ROLL UP HIS SLEEVES?

Seldom has a powerful new leader come to grief as quickly as French President Jacques Chirac. Just six months after Chirac won office, his approval rating has plunged to a mere 14%. It's easy to see why. Although he pledged to cut taxes, his government is raising them instead. And despite Chirac's vow to create jobs, unemployment has started rising—to 11.5% in September from 11.4% in August—after falling from a peak of 12.5% last December. Prime Minister Alain Juppé has taken only a modest stab at a third Chirac promise: cutting budget deficits. That has soured investors on France and threatens efforts to create a common European currency.

Now, Chirac and Juppé are scrambling to repair the damage. It's a last-chance effort for Juppé, whose approval rating has sunk below Chirac's. Partly, that's because of the regime's first big scandal: revelations that Juppé and his children got publicly owned apartments at cheap rents. If confidence stays low, Chirac may dump Juppé in a few months. His likeliest successor: centrist Raymond Barre, a free-market economist adored by financial markets.

SINKING. Juppé's job hinges on plans for fiscal rigor, outlined by Chirac on Oct. 26. The "priority of priorities," the President declared, will be to cut budget deficits—from 5% this year to 3% in 1997. That's a requirement for European monetary union, but it's also supposed to build investor confidence and permit lower interest rates, thus juicing an economy that is sinking toward possible recession late next year. Since Chirac announced his new tack, he and Juppé have publicly jawboned the Bank of France to cut rates.



CHIRAC: *Damage control*

Will Chirac and Juppé finally make good on their promises? The markets think so. The Paris Bourse—Europe's worst performer this year—jumped 5% in the two days after Chirac's deficit-cutting pledge. "There's a change in tone—I'm more encouraged about France than I've been in a long ti[illegible] says Darren Williams, an economist at Merrill Lynch & C[illegible] London. Yet there's plenty of reason for skepticism. Fr[illegible] deficits this year—from the health-care system to the s[illegible] railway—are topping forecasts. "They will become more [illegible]ficult to control as the economy weakens," warns U[illegible] Ramm, an economist at Germany's Commerzbank.

The first test will come on Nov. 13, when Juppé will [illegible] Parliament his plan to halve France's $12 billion social-secu[illegible] deficit. He'll likely propose a 1% income [illegible] surcharge, contributions by retirees, and a s[illegible] deductible on every medical claim. Jupp[illegible] also expected to make public employees w[illegible] longer for full pension benefits—a reform [illegible]plied to private-sector workers two years [illegible]

ARSON. But Juppé is sure to meet strong [illegible]sistance. State workers shut France dow[illegible] Oct. 10 in a warning strike on benefit cuts [illegible] privatization. On Oct. 30, 3,000 tradesmen [illegible] fire to the welfare office in Bordeaux, partl[illegible] protest high social-security taxes. And pu[illegible] employees threaten new strikes. Many [illegible]servers think Juppé's resolve will wither, fur[illegible] weakening the franc.

It's not just marchers who are upset [illegible] Juppé. Business leaders wish he would cut s[illegible] spending instead of hiking taxes. The Patro[illegible] France's employers' association, has been str[illegible]ly critical, an unusual reaction to a conservative governm[illegible] Even Chirac's backers in Parliament, where he enjoys an [illegible] majority, have grown restive: Recently, they voted a $2 bi[illegible] spending cut and told Juppé to figure out where to appl[illegible] "Chirac is pleasing nobody," says James Lister-Cheese, [illegible] economist at Independent Strategy, a London investment [illegible]viser. Since his popularity can't get much worse, the t[illegible] seems ripe to start the controversial reforms his country ne[illegible]

By Stewart Toy in P[illegible]

GLOBAL WRAPUP

FORD'S ASPIRATIONS IN CHINA

▶ Ford Motor Co. isn't backing away after losing the $1 billion Shanghai luxury car project to General Motors Corp. "This is not a derailment," says Ford CEO Alexander J. Trotman. Ford has four parts plants and one small assembly project in China and thinks it can win other deals there. A family-car project is one Ford wants. Even though it may be years away, Ford is pushing its versatile European Fiesta, which can be built as a compact, sedan, wagon, or a pickup truck.

OPPOSING THE 'EURO'

▶ Europe's hopes of achieving a common currency have been dealt another blow by Germany's opposition Social Democratic Party (SPD) leader, Rudolf Scharping. Scharping has called on Chancellor Helmut Kohl to delay introducing the "Euro" until after 2000. The about-face is designed to push a hot button with German voters, who are increasingly reluctant to sacrifice the strong German mark, a potent symbol of nationhood, especially in eastern Germany. But financial analysts fear that delaying mon[illegible]tary union could abort the project altogether.

The main surprise is Scharping's timing. Observers figured that he would wait until nearer the 1998 Bu[illegible]destag elections to raise one of the few issues on which he is closer to t[illegible] electorate than Kohl. But after the SPD fared poorly in Oct. 22 elections in Berlin, Scharping has to shore up his position now against the populis[illegible] Prime Minister of Lower Saxony, Gerhard Schröder, who is also maki[illegible] the mark an issue.

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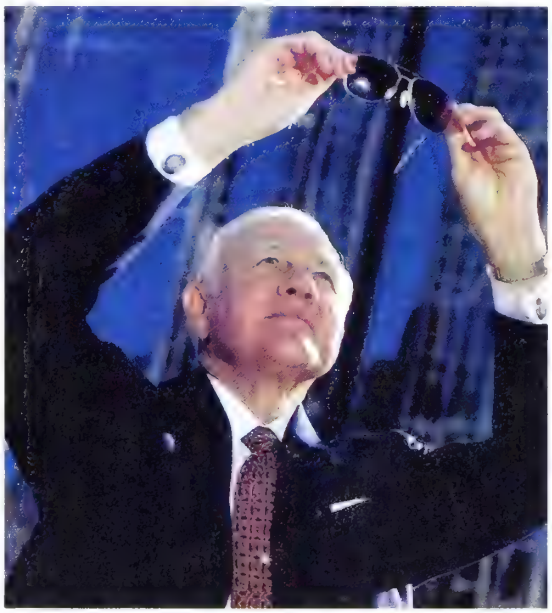
STRATEGIES

A NEW PAINT JOB AT PPG

How do you rev up a company this successful–and cautious?

Blue glass. Throughout the 1980s, researchers at PPG Industries Inc. worked long hours to develop bluish windshields that would let in filtered sunlight but block out the heat. PPG's scientists were bubbling about this new engineered glass loaded with added value. And the market? Well, how about every car company in the world?

There was only one problem. When PPG finally unveiled the blue windshields in 1991, the auto makers wouldn't have any of it. They didn't like the color, or the price. "We developed a great mousetrap," laughs Gary W. Weber, vice-president for science and technology. "But there were no mice."



DEMPSEY: *Pushing into niches such as color-changing sunglasses*

Blue glass was just a hiccup for PPG, certainly nothing to disrupt the steady profits at the 112-year-old glass, paint, and chemical company, originally known as Pittsburgh Plate Glass Co. But as Jerry E. Dempsey saw it, the chasm between PPG's labs and its customers pointed to a weakness at the $6.3 billion company. When Dempsey, the first outsider ever hired to run PPG, took up residence two years ago in the turreted black-glass headquarters known as the Ice Palace, he took a couple of months to acquaint himself with the businesses and then delivered his verdict: To overcome flat sales growth, PPG needed a crash course in marketing.

Now the 63-year-old Dempsey, who was originally viewed as a transitional CEO, is out to pump up PPG with marketing muscle. To do that, the former CEO of WMX Technologies Inc.'s Chemical Waste Management subsidiary is quietly reshaping the company, pouring investment into higher growth niches, many of which demand heavy marketing skills. He's building factories to make Transitions sunglasses and advertising them on TV. He's inviting companies such as Nike Inc. into the labs, hoping to sell it not only the bouncy innards for its shoes but also color-changing decorations. To revamp PPG's old-line commodity culture, Dempsey has even reached across town to H.J. Heinz Co., wh[illegible] he hired a former ketchup man as P[illegible] first-ever marketing director. "I [illegible] there was a lot we could do to g[illegible] the products," Dempsey says.

Dempsey's goal is to reignite P[illegible] sales, which have hovered at aroun[illegible] billion through the 1990s. To do so, [illegible] continuing PPG's push abroad, oper[illegible] glass plants in China and buying pa[illegible] businesses in South America. Demp[illegible] is also tripling investment in fast[illegible] growing sectors, such as specialty ch[illegible]icals and powder-based paints, that [illegible] account for 40% of sales but 60% [illegible] earnings. The bet is that PPG's meti[illegible]lous managers can thrive in new m[illegible]kets, many of them far from the co[illegible]modities they now master. And h[illegible] hoping that he can imbue these man[illegible]ers with marketing chutzpah with[illegible] disrupting the company's stolid, depe[illegible]able culture.

"ONLY 98% SURE." But change is a tou[illegible] sell at a company whose stock has [illegible] turned 600% in the past decade, inc[illegible]ing 13% this year, and where third-qu[illegible]ter earnings just reached a record $17[illegible] million on $1.72 billion in sales. Inde[illegible] PPG routinely delivers higher marg[illegible] than its top competito[illegible] Sherwin-Williams, D[illegible] Chemical, and Owe[illegible] Corning Fiberglas. De[illegible] Witter Reynolds I[illegible] analyst Harvey S. S[illegible]ber calls it "one of t[illegible] best-managed companies in Americ[illegible] Chemicals Vice-President Peter [illegible] Heinze says PPG executives are so ca[illegible]ful and precise that their notion of wi[illegible]ing it is enshrined in an unofficial com[illegible]ny motto: "Just do it—even if you [illegible] only 98% sure."

Small wonder, then, that getting P[illegible] managers to plunge into risky new m[illegible]kets is a challenge. Dempsey is leadi[illegible] the way by taking some risks of h[illegible] own, such as naming former Heinz Vi[illegible] President Benjam[illegible] Fisher to the new m[illegible]keting position. It to[illegible] Dempsey a full t[illegible] years to wedge open [illegible] space at the compa[illegible] for his marketing m[illegible]ven. And to avoid r[illegible]tling the top executive[illegible] he had to insert Fish[illegible] below a host of vic[illegible] presidents.

Dempsey demonstra[illegible]ed his push into ma[illegible]ket niches soon aft[illegible] arriving at the comp[illegible]ny. He found PPG's ne[illegible]

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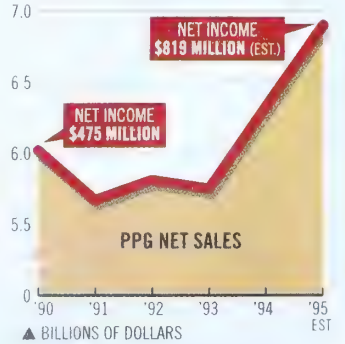

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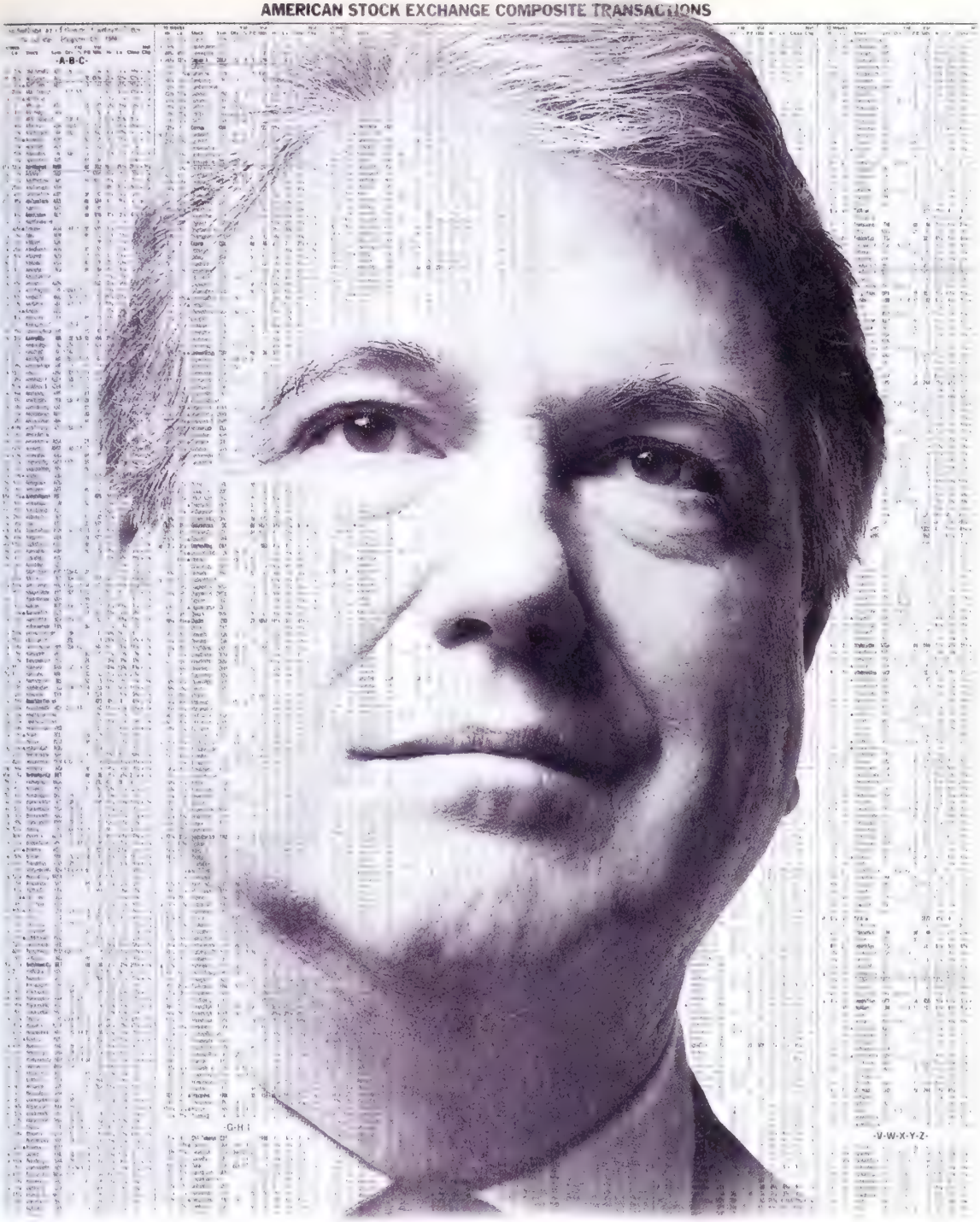

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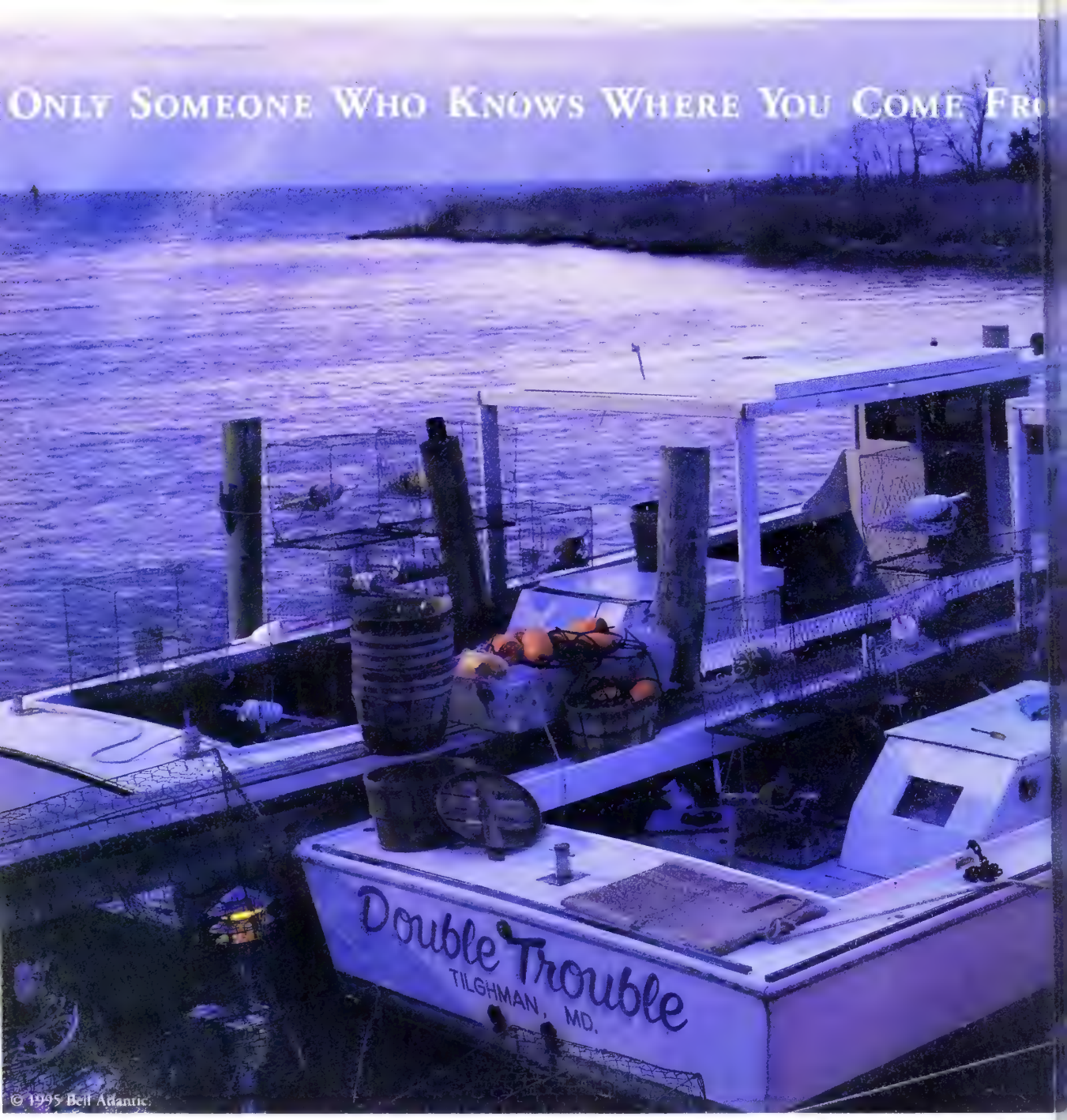
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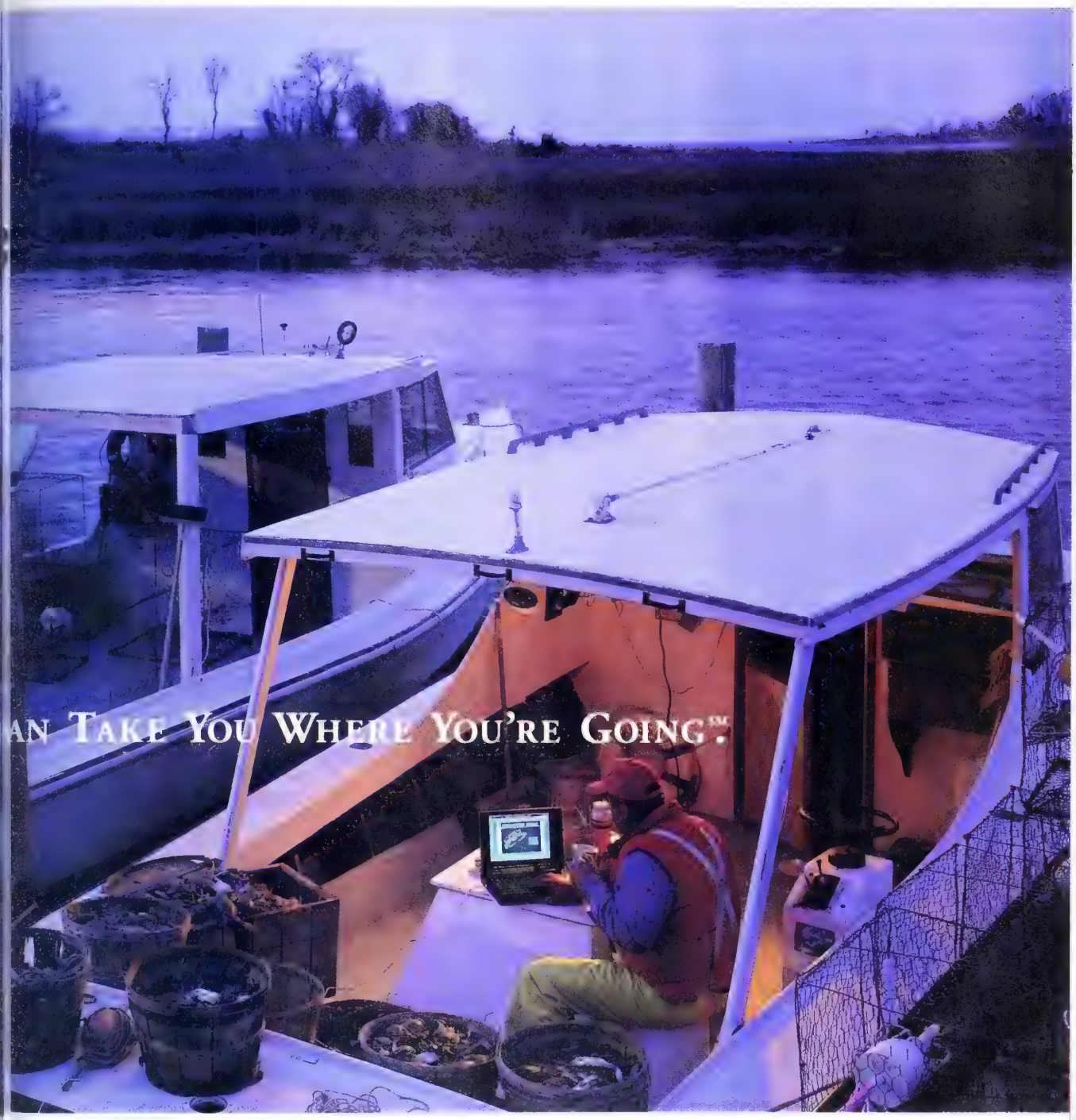

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THE HEART OF COMMUNICATION℠

Florida-based Transitions plastic-lens unit at a crossroads. It had a promising technology for lenses that lighten or darken automatically in response to light levels, but a first generation flopped in the marketplace. The lenses changed too slowly and came in unpopular colors. Many expected PPG to write off Transitions as a failed experiment. Instead, Dempsey poured money into second and third generations and built lens factories with French partner Essilor International in Ireland and Australia. Now a $100 million business growing at 40% a year, Transitions has become a showcase for Dempsey's niche-market vision for PPG and a model for other startups. Already, Dempsey is pressing researchers to perfect the next generation of Transitions, which will come with a button for manual adjustment.

RECESSION-PROOF? Dempsey is also looking to take more creative approaches to PPG's existing commodity markets. At Chrysler Corp.'s Belvedere (Ill.) Neon plant, PPG has taken over the entire paint shop. The idea is that PPG can sell every single coating for the cars and oversee their application. "We save the customer money and split the difference," says E. Kears Pollock, vice-president for coatings and resins. The move has boosted PPG's sales to the plant by 20%, and most of the growth is in higher-margined specialty coatings. But it also turns PPG into a service provider, a new business with risks of its own. Still, Dempsey is pushing similar contracts in North America and Europe. In another service venture, he's pushing PPG into insurance-claims processing. The idea: to funnel broken-window repairs straight to PPG suppliers.

Dempsey, a grandfatherly South Carolinian, was brought in two years ago largely to manage the succession at PPG, where the hard-driving Vincent A. Sarni had prepared no heirs. Dempsey promptly began grooming two executive vice-presidents for 1997, dividing the company between them as co-chief operating officers. Dempsey's hope is that they'll inherit a company that has been buffered against the next recession thanks to global expansion and niche marketing.

There are signs that PPG marketers are making headway in new niches. A couple of miles east of the Ice Palace, a group of architects at Carnegie Mellon University are putting together an office of the future. It features a host of the latest environmental gadgets and building materials. The windows at this "Intelligent Workplace" are a new thermal product from PPG. It's an engineered glass with a bluish hue.

By Stephen Baker in Pittsburgh

BOARDROOMS

ARE THESE 10 STRETCHED TOO THIN'

At troubled companies, the same directors' faces pop up

Is it just coincidence? Lilyan H. Affinito sits unobtrusively on the boards of some of the biggest companies in the U.S. and is paid nearly $300,000 a year for her trouble. But quite frequently, the companies she serves come down with a bad case of financial malaise. Kmart Corp. atrophied for years before ousting CEO Joseph E. Antonini in March—years after worried shareholders first got on the company's case. Tambrands Inc. bounced CEO Martin F. C. Emmett in 1993 after the market share of the company's only product, Tampax, plunged—as the board voted itself a pay raise. Affinito, a retired executive of a sewing-pattern company, also sits on the boards of Caterpillar, Jostens, Lillian Vernon, and Chrysler.

To be sure, Affinito, who did not respond to repeated requests for comment, is not solely responsible for the misfortunes of any of these companies. But as a director, she is partly responsible. And she's not the only one: To a remarkable degree, the boards of the country's most troubled companies share an overlapping cast of directors.

VICTIMS OF STATISTICS? Who are some of the directors with the least-distinguished track records? BUSINESS WEEK looked at the 120 companies targeted since 1992 by either the California Public Employees' Retirement System (CalPERS) or the Council of Institutio Investors. Both groups judge a com ny's performance against that of its dustry peers. CalPERS also considers company's corporate-governance rec before placing it on the list. Those w served most often on the boards these companies, especially outfits t geted in multiple years, won a spot the final ranking (table).

The worst track record, by this m sure, belongs to Affinito. Frank C. C lucci III, the former Defense Secreta came in at No. 2; and John L. Wei berg, senior chairman of Goldman Sac ranked third. The companies on who boards he served "all restructured, c costs, and developed strong strategie says Weinberg. "As the economy h recovered, [they] are doing extreme well."

Some of these directors may be vi tims of statistics, because each serves a large number of boards. But that also part of the problem, say corporat governance gurus: CEOs who dislik board supervision actually prefer dire tors who are spread thin, says Charl M. Elson, a law professor at Florida Stetson University. "If you sit on mar boards, it's probably a sign that you' not a very good director."

Somewhat surprisingly, Berkshi Hathaway Inc.'s Warren E. Buffett, pe

"FROM AAA TO JUNK"

One investor envisions "a database that ranks directors the way you rate bonds." These are the 10 directors found most often on the boards of companies targeted by shareholder groups

1 LILYAN AFFINITO: *Kmart*, Chrysler*, Caterpillar, Jostens**

2 FRANK CARLUCCI: *Westinghouse*, General Dynamics, Northern Telecom*, Upjohn*

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The Astra Galaxy is sophisticated technology, but at its heart, it's today's new business jet in concept, one that delivers extraordinary performance and a spacious cabin for a fraction of what you'd expect to pay. Galaxy is the first large business jet that will fly you from Paris to New York non-stop at lower operating costs than any business jet.

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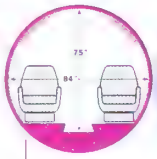
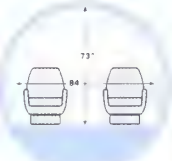


Astra Galaxy



Canadair Challenger

size, thereby reducing airframe drag and increasing efficiency.

The first convertible

The unique cabin design allows you to carry 19 passengers in a "corporate shuttle" configuration from Chicago to L.A. one day, then easily reconfigure to carry eight executives in spacious comfort to London the next. The lavish galley can be equipped with refrigerator, microwave oven, coffee maker and many other options that make food and beverage service easy and convenient.

Executive Interior

Corporate Shuttle Interior

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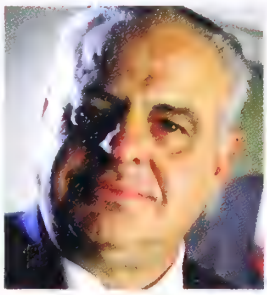
ASTRA

haps the most lionized figure in American business, won a place in the rankings. Despite his large stakes in both USAir Inc. and Salomon Inc., both repeat targets of the shareholder groups, Buffett's presence on those boards failed to turn the tide. Earlier this year, he quit the USAir board and wrote down the value of his investment in the airline. And on Oct. 19, Buffett announced he planned to cash out $140 million of his $700 million of Salomon's preferred stock rather than convert it to common shares.

Oddly enough, directors who have been at the scene of multiple corporate meltdowns suffer almost no perceptible harm to their reputations. A poor track record does not make a director any less desirable to other companies looking to fill vacant board seats, says Charles M. Ferry, chairman of the search firm Korn/Ferry International. "The board is seldom held accountable for what has happened at these companies," he notes. "Generally, the CEO carries the burden of the company that has failed."



3 JOHN WEINBERG: *Champion*, B.F. Goodrich*, DuPont, Knight-Ridder*

4 RICHARD MUNRO: *Kmart*, IBM*, Time Warner*

5 VERNON JORDAN: *American Express, RJR Nabisco, Dow Jones, Union Carbide, Ryder*

6 LOU GERSTNER: *IBM*, RJR Nabisco, Caterpillar, New York Times*

LITTLE AT STAKE? CEOs who dislike supervision may pick directors with many posts. So "if you sit on many boards, it's probably a sign that you're not a very good director"

7 WARREN BUFFETT: *Salomon*, USAir*, Coca-Cola*

8 RENE McPHERSON: *Westinghouse*, Dow Jones, Mercantile Stores*

9 EDGAR WOOLARD: *IBM*, DuPont, Citicorp*

10 WILLIAM GRAY: *Westinghouse*, Lotus, Scott Paper*

*DENOTES A COMPANY CITED IN TWO OR MORE YEARS
DATA: DIRECTORSHIP DATABASE, CALPERS, COUNCIL OF INSTITUTIONAL INVESTORS, COMPANY REPORTS, BW

"ILL-EQUIPPED." And while much of that burden should rest with the CEO, ineffective boards are the root of much of the trouble. That's the view of chemical-industry entrepreneur Jon M. Huntsman, who has served on the boards of several public companies—and has declined invitations to join about a dozen others. He now serves only on the Bankers Trust New York Corp. board. Huntsman has been disturbed by the low wattage of the dialogue in boardrooms. "Most directors I have met are ill-equipped, at best, to be advising companies," he says. What particularly alarms Huntsman are directors who sit on "a multitude of boards, deriving fees and making a living from board to board. One has to ask what their real contribution is."

Particularly galling to some shareholders is that outside directors emerge unscathed from a corporate train wreck, since they typically hold few shares and suffer no harm to their reputations. "It shows that the reputation of the company does not seem to rub off on the director. I think it should," says Nell Minow of the Lens Fund, which invests in underperforming companies and then agitates for improved performance.

The days of t Teflon director m be ending. Sha holder activists, w have caused a s change in the c namics of corpora governance in rece years, think the peated presence of many of the same rectors at troubl companies is not accident. They pr dict that the tra records of directo will take increasi prominence as sha holders seek to h their representativ accountable for po performance. lightning repeated strikes, one beg to wonder wheth there is a reaso observes Joseph Grundfest, forme at the Securities Exchange Comm sion and now a Sta ford University la professor. "In the days, people were paying attention individual directo track records a how many other d asters they ha been associated wi That is going change."

Minow and oth activist shareholde say that there is m mentum building a way to judge t effectiveness a competence of cor rate directors. Minow envisions "a da base that ranks directors like you ra bonds, from AAA to junk." Already, most 18% of the largest boards cull "effective" directors every year, sa Korn/Ferry. And with increasing atte tion paid to the performance of indiv ual directors, the day may soon co when they are ousted as regularly a as publicly as underperforming CE That's the prediction of Scott Paper C Albert J. Dunlap, who is sharply criti of what he regards as do-nothing dire tors. The pink slips, he says, "are co ing like a freight train" into Corpora America's boardrooms.

By Elizabeth Lesly in New Yo

RETIREMENT

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FAD FOOD

GIMME A BAGEL —WITH LEGS

From Boise to Biloxi, the deli staple heads for the heartland

It's 8 a.m. at Bruegger's Bagel Bakery in Denver. Polly E. Parson, a doctor at Denver General Hospital, picks up a sackful of bagels for the interns and resident physicians she oversees. "They're excited to get bagels," she says. "I brought doughnuts once, and they left them."

GUILT-FREE: *Bagels' no-fat, low-sugar profile wins fans*

Who doesn't love these chewy, doughnut-shaped rolls? Once, bagels were just boiled bread, a Jewish delicacy as foreign to heartland Americans as matzoh balls. But now, from Boise to Biloxi, they're the snack food of the '90s. Fast-growing bakery chains offer bagels in unorthodox flavors that would bewilder the immigrants who brought them a century ago from Eastern Europe: sun-dried tomato, spinach pesto, papaya, and chocolate chip. And instead of cream cheese and lox, they're being slathered with "lite" cheese and jalapeños or bacon. Sales of packaged bagels, with a shelf life of two weeks instead of two days, are on the rise, too. Now, some big food franchisers are taking a closer look at the bagel boom.

Like cookies, muffins, and cinnan rolls, bagels are a portable snack foo but, says Carol Kroskey, senior editor *Bakery Production & Marketing*, wit guilt-free difference: "They're heal treats. Bagels have less of an evil pr than a high-fat cookie." Made with shortening and never more than a pi of sugar, bagels are low in fat.

Americans are expected to buy $ billion worth of bagels this year, up 3 over the past five years, says Krosk who predicts a 50% increase in the n five. Bagel shops, whose sales sho total $450 million this year, are the f est-growing segment of the market.

McBAGEL'S? That increase comes large part from chains such as Bru ger's, the industry giant, which proje that its 207 stores will grow to 1, by 1998. Privately held Bruegger's C doesn't break out results but says t company-owned and franchised sto had total sales last year of $81 mil and predicts that will climb to $145 r lion this year. Publicly traded Manhat Bagel Co. earned $506,585 last year, revenues of $6.2 million, primarily fr sales of raw bagels and spreads to fr chised stores plus franchise fees. T number of stores has more than doub this year, to 131, mostly in the E but Manhattan is expanding into Cali nia. Fast-growing Big Apple Bag adds bagel dogs, pizza bagels, and ch olate-covered bagel chips to its me and it is testing bagel drive-through Supermarket bagel sa are booming, t helped by the m ket-building done the chains. Last y more than $1.2 bill

BUT ARE THEY REALLY BAGELS?

Michael Edelstein has a passion, and his passion is bagels. The window of his 35-year-old storefront bakery in Queens, N. Y., Bagel Oasis, declares, with typical New York modesty, "We're not good by accident. We're the best on purpose."

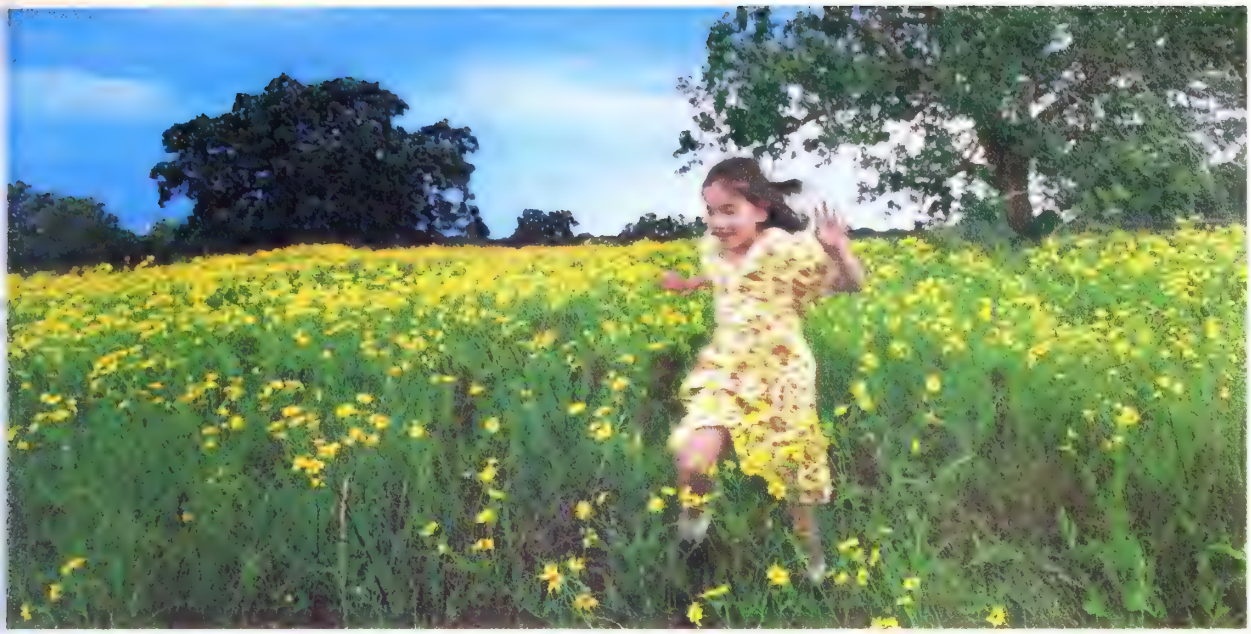
Edelstein and his staff of 20 bakers turn out 4,000 to 5,000 dozen hand-formed bagels a week—about what Kraft Foods Inc. produces just warming up the ovens. But don't bother stopping by Oasis for a chocolate chip bagel or a sun-dried tomato bagel. "It's a circle. You can put cheese on it," he says of such New Age interlopers. "But it's not a bagel."

PURE AND SIMPLE. Oasis bagels are made with only five ingredients: flour, malt, salt, yeast, and water, all mixed together in a 90-year-old taffy machine that can handle 800 pounds of dough at a time. Bakers cut long strips from giant blocks of dough, roll the strips into tubes, cut them to size, and with a flip of the wrist form them into bagels. After rising, the bagels are boiled in a giant cauldron of water, fished out, drained, and baked on wooden slabs in a 60-year-old oven.

Sounds simple, but to a connoisseur such as Edelstein, there are a thousand ways to bungle a bagel, from low-quality flour (a problem in recent years) to added sugar (a desecration never allowed at Oasis) to hiding quality flaws with extra ingredients such as oil (that's not a bagel, either). The perfect bagel, says Edelstein, is crisp on the outside and light on the inside.

So what does Edelstein think of the bagel chains spreading this East Coast ethnic offering throughout the heartland? "Did bagels reach the rest of the country," he asks, "or did white bread with holes in it reach the rest of the country?"

By Mary Kuntz in Queens, N. Y



Sarah knows a lot about diabetes. She knows because **S** she has it. But she doesn't know that Eli Lilly and Company developed the medicine she takes every day. Or that we keep her doctor up-to-date about the findings of health care professionals all over the world **a** who treat kids just like her. Why should she? She's busy just being a seven-year-old. If the last 119 years have taught us anything, it is simply this: knowledge is powerful medicine. So, while we continue our search **r** for innovative medicines, Lilly is also pioneering ways to use information technology to improve health care. We're collecting, analyzing, and sharing information with thousands of health care providers **a** and patients. And we're leading the search for better, more affordable treatments, preventions, and cures—so people can live healthier, more active lives. Meanwhile, for Sarah, Lilly may be only the name **h** on her medicine...and that's just fine with us.

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KNOWLEDGE IS POWERFUL MEDICINE

worth of bagels rolled out of supermarket doors. Kraft Foods Inc. sold its bakery operations in June—but held on to Lender's Bagel Bakery, the No. 1 grocery brand. Both Kraft and Sara Lee Corp. have introduced fresh supermarket bagels, a fast-growing segment.

"CREDIBILITY." Such hot expansion has attracted the attention of some savvy food marketers. In March, Starbucks Coffee Co. paid $11 million for 20% of Noah's New York Bagels Inc., a California company with 27 outlets near San Francisco. Now, Noah's is expanding into Los Angeles, where industry sales are growing nearly fivefold a year. "Starbucks gave us financing, a great strategic partner, and credibility with landlords and bankers," says Noah's president and CEO, William B. Hughson. He has a dozen stores in development adjacent to Starbucks coffeehouses.

Meanwhile, Boston Chicken Inc., which pushes home-style prepared dinners, is lending as much as $80 million to Progressive Bagel Concepts Inc. in exchange for options on more than half the company's stock. "Bagels in the morning is the same thing Boston Market is doing for dinner," says Mark W. Stephens, CFO of Boston Chicken, which will provide capital and support services but stay out of management. Progressive Bagel, a merger of four independent chains, has just opened its prototype einste!n bros. bagel store in Ogden, Utah, and plans to convert all 53 of its outlets to einste!n's. It will add some 300 more by the end of 1996. The company uses a contemporary café format and also serves lattes, herbal teas, and sandwiches. In fact, despite their New York names, most of the new bagelries, with their crisp, clean lines and bright graphics, look more like California coffee bars than Big Apple delis.

> A dozen Noah's bagel shops will open next to coffee bars owned by new partner Starbucks

Is the market big enough for all these bagel arrivistes? When Bruegger's opened a store in Bethesda, Md., on the same block as Bethesda Bagels, a longtime local bakery that makes bagels by hand, the outcry reached the front page of the local paper. But Bethesda Bagels is doing fine despite the new competition. Its newest plan: franchising, of course.

By Sandra Dallas in Denver, with bureau reports

Government

POLITICS

'BUSINESSCRATS' TO THE RESCUE?

Senator Kerrey is recruiting a new breed of Dems for '96

REDEFINING DEMOCRAT: *Sanders left Glaxo Inc.'s corner office to take on Jess*

Like most CEOs, Elliott S. Close embraces many goals of the Republican Congress, such as balancing the budget, curbing government regulations, and enacting term limits. But the head of Island Harbor Development Corp., a residential real estate firm in Fort Mill, S. C., is turned off by Capitol Hill's partisan rancor and GOP leaders' reluctance to limit the influence of special interests. So Close has decided to do something about it: run for the U. S. Senate in 1996. As a Democrat.

Close, who's trying to oust 92-year-old Republican Strom Thurmond, admits he's a bit uncomfortable in the party of Bill Clinton and Ted Kennedy. "People are not enamored with either party," says the 42-year-old businessman, who describes himself as a moderate conservative. "We need people without a hardline political agenda who can get things done through business logic and common sense rather than bicker."

Senator Bob Kerrey (D-Neb.) couldn't have said it any better. As chairman of the Democratic Senatorial Campaign Committee, he's scouring Corporate America for a few good execs willing to run for the Senate next year. Ker hopes a wave of business recruits s as Close will convince swing voters t his party is not captive to the th L's—liberals, lawyers, and labor. "So one who has been successful knows effort, focus, and discipline necessary do the job," says the two-term Nebr kan, who owned a chain of family rest rants before entering politics.

HELP WANTED. Kerrey's ad: Centri with real-world experience sought. M be willing to tackle thorny political sues, such as reining in the costs of So Security and other entitlement progra "The Democrats have to redefine w they're all about," says Dr. Charles Sanders, who quit earlier this year chairman of Glaxo Inc., the U.S. unit British drug giant Glaxo Holdings PLC challenge Senator Jesse Helms (R-N. "I stand for growth, fiscal responsibil and investment in education."

While Kerrey has so far recruited least six businessmen, he faces a dau ing task. With the GOP already holdin 54-46 edge and eight Democratic incu bents retiring next year, Democrats given scant chance of retaking the S

Connect

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Morgan bankers in Bombay with joint venture colleague (center)

JPMorgan

Kerrey is out to convince swing voters that his party isn't captive to the three L's–liberals, lawyers, and labor

ate. But Kerrey hopes his enrollees can capture some of the "outsider" magic that helped House Republicans in 1994: More than half of the 73 GOP freshmen have business experience. He's also betting that CEO candidates can aid his party in conservative states, such as South Carolina, Idaho, and Oklahoma.

The new Businesscrats will have to get used to being loyal Democrats. Most have donated to the GOP as well as the Democratic Party. Sanders, for example, gave money to former President George Bush and ex-Senator Bob Packwood (R-Ore.). Walter C. Minnick, ex-CEO of TJ International Inc., a Boise (Idaho) building-materials company, worked in the Nixon White House. Moreover, all favor a balanced budget and vow to limit their service in Washington to two six-year terms. "We're a little younger and less traditional" than incumbent Democrats, says James Sears Bryant, founder of an Oklahoma sports-agent company that has merged with ProServ Inc. "I want to show that it's O.K. to have a job and a career and take some time off to help the country—and then go home," says Bryant.

Republicans are warily eyeing Kerrey's effort. Although many of the execs were wooed only after other prominent Democratic pols opted out, the opposition is praising the strategy. "It's a lot smarter than recruiting young lawyers," admits GOP consultant Eddie Mahe Jr.

The new approach is also winning approval from executives. "The more we bring businessmen in there, the more they could bring [the Democrats] to the center," says James Bradley, retired CEO of Springs Co., a South Carolina insurance and machine-tools business. Bradley has donated to both parties in the past, but he's backing Close in '96.

If just a handful of Democratic execs win, they could push a pro-growth Democratic agenda on Capitol Hill and seek bipartisan centrist coalitions to temper the excesses of the GOP revolution. For instance, Kerrey's corps would push regulatory and legal reforms to ease burdens on business without curtailing the rights of victims of corporate misdeeds. They also would seek a bipartisan overhaul of campaign-finance and lobbying rules. Heading their economic wish list: federal partnerships with the private sector to improve the nation's education, research, and job training.

Virginia Senate hopeful Mark Warner, who made a fortune running wireless-communications companies, wa government to work with business make the U.S. more globally compe tive. "I reject the argument of Den crats who say government is always t solution and Republicans who say g ernment is always the problem," sa Warner, who hopes to replace GOP cumbent John W. Warner (no relatio

While Warner, a former Democra state chairman, was eager to run Senate in '96, other execs have be more reticent. Minnick was first proached by a jogging partner who t him the Democrats wanted a Sena candidate who was "socially modera fiscally conservative, and had a care that had nothing to do with politic Minnick repeatedly rebuffed the entre ies because "the Democratic Party damn near nonexistent in Idaho, and body had ever heard of me." But Ker wouldn't take no for an answer. " kept calling me, pestering me," rec Minnick. With Democratic polls sho ing that GOP incumbent Larry E. Cr is vulnerable, "he convinced me that, could win, it was an opportunity to d little good on some issues I care abou

IMITATION? The liberal Democratic I tablishment, meanwhile, isn't just roll over while these centrist newcome grab the party's reins. In North Car na, Sanders faces a tough primary fi with liberal ex-Mayor Harvey B. Ga of Charlotte, the unsuccessful 1990 no inee against Helms. And the state pa organization is deeply divided. Some t ditional Democrats worry that the bu ness candidates offer little more tha pale imitation of GOP conservatism—a are likely to be rejected by voters w will opt for the real thing. Says ex-R resentative Tom Andrews of Maine, unsuccessful 1994 Senate candidate: " in an attempt to make Democrats m 'acceptable,' you try to out-right Rep licans on some of the issues, then you undermined yourself ultimately."

But such griping doesn't faze the n recruits. "If I lose," says Minnick, "t only costs will be a year of my ti and whatever of my own money I p into the campaign." That's not too bi price or risk for executives familiar w the uncertainties of business. If th succeed, the return on their investm could be significant—for them and a suscitated Democratic Party.

By Richard S. Dunham in Washing

The Democrats' Business Slate

Democratic Party senatorial candidates with business backgrounds

CANDIDATE/STATE	BACKGROUND	INCUMBENT REPUBLICAN
JAMES SEARS BRYANT Oklahoma	Founder of JBI/Sports Ventures, a sports-management firm	James M. Inhofe
ELLIOTT S. CLOSE South Carolina	CEO of Island Harbor Development, a real estate company, and a former textile executive	Strom Thurmond
WALTER C. MINNICK Idaho	Former CEO of TJ International, a construction-supply business	Larry E. Craig
E. BENJAMIN NELSON Nebraska	Former president and CEO, Central National Group Insurance. Now governor of Nebraska	Open seat
DR. CHARLES A. SANDERS North Carolina	Ex-chairman of the U.S. unit of Glaxo and former vice-chairman of Squibb, both pharmaceutical companies	Jesse A. Helms
MARK WARNER Virginia	Founder of MRW Enterprises and Columbia Capital, which specializes in wireless communications	John W. Warner (no relation)

MICONDUCTORS

ıT ROCKWELL, THE WORD S 'WIRELESS'

ın it translate its success in modems to the phone business of the future?

ack in the 1970s, when Rockwell International Corp. was churning out bombers, satellites, and rocket engines for the government, a skunk works in its semiconductor t was working on a far more munıe product: fax machines. It was try- to dramatically pare down the hunds of chips that it then took to send image of a printed page ır a telephone line.

The research paid off ond everyone's wildest ams. Electronic devices t once filled a file-cabi--size box now fit on a gle chip. Coupled with aggressive strategy that helped win 70% of the rldwide modem market Rockwell, that chip is foundation of a billionlar business: Rockwell niconductor Systems.

RIVALS. Now, Rockwell gambling that another ımk-works project can ıture a major chunk of ıew, lucrative market—eless communications. On Oct. 30, company unveiled a five-chip pack- that includes essentially everything ded to build one of the new 900-gahertz digital cordless phones. It's industry's most highly integrated kage, Rockwell claims, and the comıy is so confident of success that ckwell Semiconductor has created a w division to spearhead the thrust: Wireless Communications Div. Look similar chip sets soon for cellular ones, personal digital assistants, and ery other type of wireless gadget. ckwell's goal is making "chips for perıal communications of all types," exıins Dwight W. Decker, president of ckwell Semiconductor Systems.

Jumping into the wireless telephone siness will pit Rockwell against such pmaking stalwarts as Toshiba, SGSomson, and Motorola. But Decker is daunted. For one thing, he has already faced down the world's biggest chipmaker, Intel Corp., and AT&T Microelectronics. In 1990, Intel grabbed the top sales spot in modems for PCs, while Rockwell was doing so poorly that the company was on the verge of bowing out. But Decker led a small cadre that persuaded top management to launch an expansion drive instead. Less than two years later, Rockwell's modem sales had jumped sevenfold, and the company regained the commanding lead it once had in the 1980s. "We basically kicked Intel out of the modem business," exults Decker. Intel execs prefer to say that they decided microprocessors were more profitable than modems.

DECKER: *"We kicked Intel out of the modem business"*

CHIP SET Rockwell wants to put the heart and soul of a product on chips. Its customers provide the skin—and the marketing

Decker also believes Rockwell has a winning strategy in wireless communications, the hottest segment of what he calls "personal electronics." The idea is to use Rockwell's chips as a package for all the knowhow that goes into a product. This is the approach the company is using for everything from its global positioning satellite (GPS) receivers for car navigation systems to plug-in boards that turn PCs into sophisticated home telephone switchboards.

For all practical purposes, then, Rockwell's chips are a product's heart and soul. All that the customers Rockwell hopes to win must do is add the exterior housing—and rush the product to consumers. The approach has benefits for both Rockwell and its customers. Because the chips are preprogrammed, chip-set buyers can get to market quicker, and Rockwell can command price premiums of up to 50%. In addition, Rockwell can sell to dozens of computer and consumer electronics companies, instead of competing by marketing products directly to consumers. "Rockwell has clearly done an amazing job staying a step ahead of the market," says Daniel L. Klesken, semiconductor analyst at Robertson Stephens & Co. in San Francisco.

If all that sounds eerily like the strategy of another chipmaker, $15 billion Intel, it is. As more and more functions of computers collapse onto fewer chips, Intel is being forced into the systems business. To speed its latest microprocessors to market and spur demand for ever faster PCs, Intel now supplies PC companies with motherboards as well as printed circuit boards for videoconferencing products. Similarly, Rockwell builds "board-level" systems while its chip designers are struggling to integrate the electronics onto chips.

Rockwell's modem business has been soaring, driven both by the company's advances in technology and the explosive growth of the Internet. "Rockwell

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has become the principal supplier of the on- and off-ramps for the Information Superhighway," says Gregory L. Sheppard, a semiconductor analyst at market researcher Dataquest Inc. in San Jose, Calif. The boom shows no signs of abating soon: 29 million modems will be sold this year, according to International Data Corp. That's up nearly 50% over last year.

Meanwhile, Rockwell sees lucrative overlaps between its modem technology and the multimedia realm. It is adding voice-processing features to its PC modems, with video eventually coming as well. Ultimately, the same silicon may be able to handle any type of signal. Already, Rockwell's latest chip set gives a fax machine enough smarts to do double-duty as an answering machine. And its latest PC modem can handle simultaneous voice and data exchanges on the same phone line. More than 50 Rockwell customers will soon introduce modems with this feature, including Boca Research, Zoom Telephonics, and Supra. One application: People who answer 800-number help phones at PC companies will be able to talk and remotely examine a customer's computer at the same time.

Rockwell is also taking another page from Intel's book and advertising directly to consumers. Just as Intel has cajoled its PC-maker customers into plastering their PCs with "Intel Inside" stickers, Rockwell has launched a campaign called "Connect with Rockwell." Matsushita Electric Industrial Co., among others, puts the Rockwell stickers on its Panasonic fax machines.

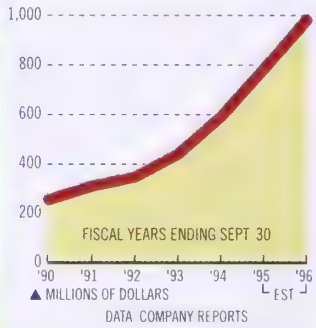
It may sound like so much advertising hype, but the campaign is not without reason. All modem chips adhere to standards that enable them talk to different brands. But in addition, the chips often sport proprietary features signed to improve operations when same brand of chip is on both ends line. With technology outracing the st dards-setting process, modem mak are constantly unveiling new tric "When we introduce a new feature, p ple might ask: 'Is that feature going be important?' Well," says De er, "with a 70% share, we make it important."

To gear up for the campa in the wireless telephone b ness, Rockwell is in the throe a massive expansion. It plowed $400 million into Newport Beach (Calif.) chipm ing facility. In July, it bou United Technologies Corp.'s plant in Colorado Springs— will invest up to a billion bu there over the next five ye By 2000, Decker predicts that Rockv will be a $1.7 billion chipmaker, wit third of that coming from wireless pr ucts. If he can meet those aggress goals, then even ordinary telephone ers—and not just astronauts and bo er pilots—will know what it means connect with Rockwell.

By Larry Armstrong in Los Ang

A Most Excellent Semiconductor Adventure

The explosion in online communications has Rockwell's chip sales soaring.



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n weaver ants build a nest, some roll up a leaf and hold it together while others weave the gaps shut with the fluid silk secreted by their larvae.

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H A N S O N

AGGREGATES CHEMICALS COAL CONSTRUCTION PRODUCTS FOREST PRODUCTS TOBACCO PROPA

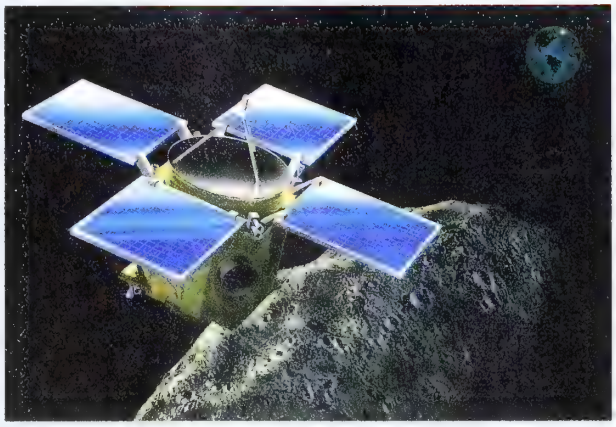
TED BY NEIL GROSS

AM CHIPS E GETTING EN SMARTER

HIP-DESIGN WIZARD WHO Toshiba Corp. six years has figured out how to 16 to 10 times more infor- ion into memory-chip . The advance could slash cost of DRAM (dynamic lom-access memory) chips wo-thirds or more, says inventor, Tamio Saito, is co-founder, president, CEO of Solidas Corp., d in San Jose, Calif.

rdinary memory cells e just one bit of data. A voltage in the memory charge-storing capacitor ns the bit is a one; a low age means it's a zero. But 's so-called ZRAM memory are sensitive enough to nguish tiny differences in age—up to 1,000 incre- ts from zero to five volts. of those voltage levels ds for a different string of —for instance, 0000000000 010101010.

aito succeeded in using tiple voltage levels by g a problem that plagued iba, Hitachi, IBM, and rs that have tried multi- l DRAMS—namely, electri- 'noise" that distorts the age levels. Much of the e comes from the slam- g of the memory cell's sistor gate. So Saito each cell a second tran- r that works in an oppo- way, canceling the noise. 'hile Saito has achieved its per cell in the lab, M makers might settle for six bits per cell in the generation of mass pro- ion. That could be han- with just 64 different age levels. Memory access ightly slower than in a entional DRAM but fast igh for things such as vid- uffers and hard-disk con- ers. Saito says Solidas is otiating with five major M makers interested in ob- ng manufacturing licenses.



SURFING THE SKIES ON THE INTERNET

ASTRONOMERS PEERING INTO THE HEAVENS ARE GETTING a boost from another kind of space—cyberspace. At Lawrence Livermore National Laboratory, researchers capture images of mysterious, short-lived bursts of gamma rays in space. Their telescope takes good pictures but may not be looking where bursts are likely to occur. So astronomers rely on an orbiting observatory. It finds the bursts and alerts a ground station in Maryland, where computers calculate the coordinates and relay them to Livermore over the Net.

Livermore isn't alone. In October, responding to a tip on the Internet, scientists at the University of California's Lick Observatory made the first confirmed spotting of a planet outside our own solar system. And next year, scientists at the Johns Hopkins University Applied Physics Laboratory in Laurel, Md., will use a linked constellation of home pages on the World Wide Web to keep scientists around the world posted on its Near Earth Asteroid Rendezvous (NEAR), a collaboration with NASA. At the rendezvous, expected in June, 1997, NEAR will make the first comprehensive measurements of an asteroid's composition and structure (artist's concept above).

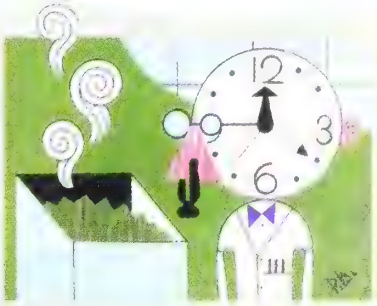
A VIRTUAL LAB THAT TURNS UP REAL-LIFE DRUGS

IN THEIR NEVER ENDING search for new drug candidates, pharmaceutical companies are increasingly turning to "combinatorial" chemistry. The idea is to combine molecular building blocks in different ways, thus synthesizing thousands of new chemicals. Each molecule can then be tested for drug-like effects.

Unfortunately, this shotgun approach doesn't always result in a drug candidate. That's why Exton (Pa.) start-up 3-Dimensional Pharmaceuticals Inc. has come up with a new twist. In its approach, which just won a broad patent, computers first make "virtual chemicals," then search for those that have simulated biological effects. Since the computer isn't always right, the company then actually makes those promising chemicals. Tests of these substances, in turn, offer new data about the relationship between structure and biological activity, which can be used to fine-tune the chemicals in later rounds of synthesis.

3-D has used the method to find a promising anticlotting compound and now hopes to forge alliances with pharmaceutical partners.

HOW TO MAKE LANDFILLS LESS FUNKY



FOUL-SMELLING GASES from municipal landfills or composting operations aren't just a nuisance for people nearby. They can also cost operators a fortune to control. The solution, according to Cornell University researchers, is to use signature gases that form before the noxious fumes are released as an alarm system.

In most cases, the stench comes from bacteria that break down buried proteins, emitting culprits such as methanol and dimethylsulfide. Before this happens, however, carbohydrates in the mix tend to ferment, releasing odorless gases such as hydrogen and carbon monoxide. So the Cornell team built a pilot composter fitted with a gas-measuring device and studied the timing of different emissions. Using their observations, compost operators can pump air into the mix as soon as the odorless gases appear and reduce bacterial activity before bad fumes form.

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More computin

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INFORMATION MANAGEMENT

BULLET-PROOFING THE NET

Security is still cramping commerce, but there's hope

A year ago, the explosive growth of the Internet was sparking a new vision of all-electronic commerce. The boundless Net would let businesses trade with one another and reach millions of consumers directly—all in the time it takes for bits of data to cross phone wires. Almost immediately, though, questions arose about how safe it would be to do business on the Internet's public—and anarchic—circuits. Would consumers feel safe, say, typing credit-card numbers into this hacker's heaven, where you can't be sure who's who and what's what?

The answer, echoed by a chorus of enthusiastic technologists and eager executives: Sure, there are security problems. But there's nothing that can't be licked within a year or so.

FORMAT JOCKEYS. So much for wishful thinking. The year is up, and Internet security looks to be as tough a problem as ever—at least, as measured by public perception and the hesitancy of many companies to attach to the Internet and do business there. New security holes are uncovered almost weekly, it seems, even after earlier ones get fixed. "If consumers and merchants don't have a certain degree of confidence, [electronic commerce] is not going to work," says Carl F. Pascarella, chief executive officer and president of Visa USA Inc., which has teamed with Microsoft Corp. to develop a scheme for safely processing credit-card transactions on the Internet.

It's no wonder the public perceives Internet security as lax. In September, Netscape Communications Corp., a leading maker of Internet software, saw the security locks on its Navigator Web-browser program broken—for the second time in a year—by a couple of graduate students. Netscape rushed to issue a fix.

A few weeks later, the same pair said they had found a major security gap in software used at many Internet sites, which seemed to open the way to so-called bootstrap attacks. Crooks might use the gap to intercept and alter copies of Internet-related software packages—perhaps copies of Netscape Navigator. If a package's security routines were secretly gutted, any other program that the corrupt package touched—perhaps while copying the new program from a remote Internet computer—could be compromised, too.

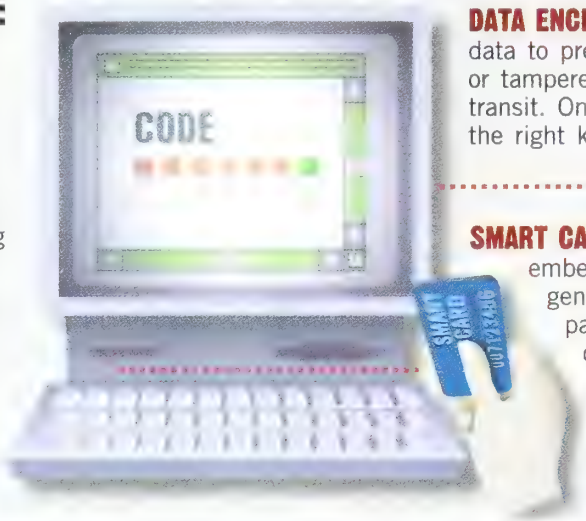
As alarming as these breaches are, more fundamental obstacle has stood i the way of electronic commerce. Tech nology companies and would-be cybe businesses have yet to agree on impo tant protocols for sending payment over the Net. A year ago, the expert said these protocols would be standard ized by now. But because security prot cols are so critical to the future of th Internet and the digital economy in ge eral, a battle has broken out over wha formats to use. Various players, inclu ing banks, software makers such as M crosoft and Netscape, and major credi card companies, are all jockeying f strategic position.

Would-be cybermerchants aren't all sure which payment scheme to bac As a result, the hoped-for surge in cybershopping remains a year or two away (chart). Today, consumers are scanning the shelves of online stores, but when it time to buy they log off and dial trusted 800 number.

POSTCARDS. The Internet industry "discovering that security is pretty com plex," says Jay M. Tenenbaum, founde and CEO of Enterprise Integration Tech nologies, a maker of electronic-commerc software that was acquired in Augus by VeriFone Inc., a supplier of credi card terminals. Plugging security hole in business-to-business networking relatively easy, because trading par ners in electronic commerce typicall know one another. Retailers, howeve face bigger risks: When they open the Internet computers to the masses, the have little protection because the Ne was designed to help people share info mation, not hide it. Adding security no is a huge challenge. Says Tenenbaun

THE INTERNET: OPEN BUT INSECURE

The Internet is not centrally managed, and it's open to use by anyone—including crooks, eavesdroppers, and impostors. Various technologies can make it safe for business, but only if consumers and merchants both do their part.



DATA ENCRYPTION scrambles data to prevent its being read or tampered with during transit. Only those with the right key can read it.

SMART CARD, with embedded microchip, generates unique passwords that confirm a person's identity. Each password gets used only once.

here is no ironclad security on such a idespread and open network."

Perfect security is just not attain-ble—on the Net or in any business mi-u. On the other hand, says Gene Spaf-rd, a professor at Purdue University's AST computer-security research pro-ct, "Good security is possible." In oth-words, the Net can be given a level safety that business and consumers n live with. Any risk that remains ill be treated as a cost of doing busi-ss—just as it is in today's credit-card siness. No single technology or proto-l will handle all aspects of Internet curity. But the right combinations can cure credit cards, business documents, d even cash.

The basic difficulty is that the Inter-t moves information as if it were ritten on postcards—readable by any-e who bothers to look. As messages move across the Net, they can easily pass through a half-dozen computers. Theoretically, a hack-er could reprogram one of those ma-ines to keep copies of messages. Cryp-graphic software, though, can scramble e messages according to a mathemat-al formula. Without the right numerical ey, even those who know the formula n't read the encrypt-d message without a reat deal of trouble.

Here's how it might ork in a home-shop-ing setup (table). Then a consumer de-des to buy an item, is personal computer ould encrypt credit-ard information for fe passage to a mer-ant. In competing ayment schemes pro-osed by Netscape nd by Visa and Mi-crosoft, the merchant's computer would actually pass the encrypted number directly to a bank. The bank would unscramble the number and, if appropriate, authorize the merchant to proceed with the transaction.

NIGHTMARE SCENARIO. In fact, the bank's exposure to risk here could be less than if the item were bought at a store or by phone or fax. That's because the credit-card data are kept hidden from the merchant—a key advantage of using encrypted electronic messages. Says Scott McNealy, chairman and CEO of Sun Microsystems Inc.: "My E-mail is far harder to get at than my hard-copy mail," which gets dropped off "in a tin box with no lock on it."

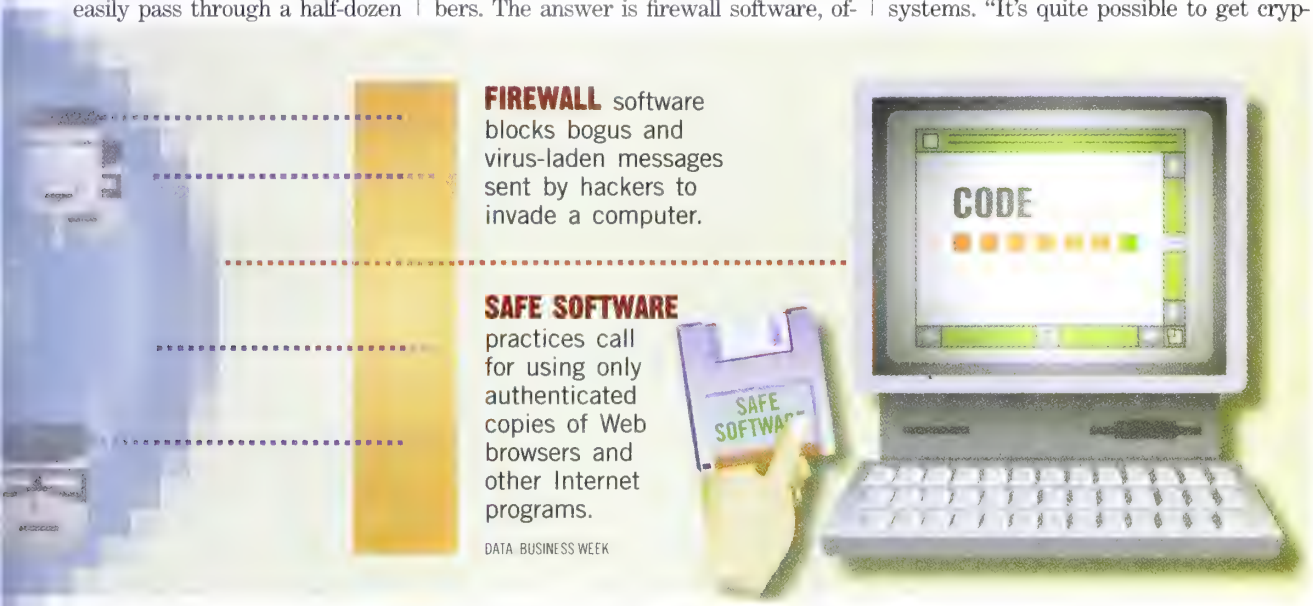
The other major challenge in Internet security is shielding Net computers from hackers. The Internet merchant's worst nightmare is that a hacker breaks in and steals thousands of credit-card numbers. The answer is firewall software, often running on a machine dedicated to the purpose, which itself is hacker-proof and lets in only selected types of Internet traffic. Intuit Inc. has just bought 20 of Sun Microsystems' SunScreen firewalls, which will create secure Internet links between banks that handle payments and other transactions for users of Intuit's Quicken software.

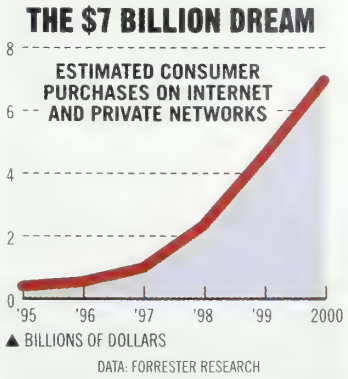
Ultimately, every service on the Internet is rooted in software, which usually isn't as reliable and bulletproof as it should be, says Purdue's Spafford. One reason: Today's software products "contain disclaimers disavowing any liability, so there is no incentive for the vendors to do better" at getting security right, he says. "If [these programs] were automobiles, they would stall out every few hours without warning and occasionally explode, killing all inside."

Take Netscape's problems with Navigator. In an apparent rush to launch the program into the booming Web market—and thereby to establish its proprietary security protocols as a standard for credit-card transactions—Netscape's programmers did what the company admits was a sloppy job in coding an otherwise sound security procedure. The routine depends on random numbers to calculate encryption keys for each transaction. The way Navigator was originally programmed, however, these random numbers were relatively easy to predict, which made the resulting keys worthless. "It was a thoroughly unnecessary bug," says Whitfield Diffie, a cryptographer at Sun Microsystems. "It's quite possible to get cryp-to systems right." Netscape has since begun offering prizes to anyone who finds new loopholes in its software.

No doubt there will always be some security problems on the Net. But the holes can be reduced to an obscure few and the odds of break-ins drastically reduced. Just ask NASA, which for more than a year has been quietly shipping space-shuttle software back and forth over the Net with a handful of contractors. Using firewalls from Harris Corp., NASA has carved out a private, ultra-secure network within the Internet at large. The setup is being scrutinized by other federal agencies, which are all under mandate to use the Internet's low-cost connections. Evidently, it is quite possible to teach this old dog of a network some dazzling new tricks—if you're willing to put in the time and money.

By John W. Verity in New York with Rob Hof in San Francisco





Ah, isn't the information age just wonderful?

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COMPUTERS

INTERNET LITE: WHO NEEDS A PC?

Net-surfing machines that cost under $500 hit the market

Now that everything from the Pentagon to the Mighty Morphin Power Rangers has a home page on the World Wide Web, you would think people by the millions would be slipping into cyberspace in the comfort of their homes. Apparently not. While several million souls are roaming the Web, according to recent surveys, most of them are doing it at work.

But, argues a growing band of electronics and software companies, everybody would be surfing the Net from the sofa by now—if they didn't have to shell out $2,000 for a multimedia PC and figure out how to use it. The most high-profile evangelists of this view have been Oracle Corp. and Sun Microsystems Inc. Executives from both companies have been preaching that the PC is irrelevant and the age of the "Internet appliance" is at hand. This beast, sort of a barebones terminal just for cruising the Internet, could do much of what PCs do in cyberspace—for a fraction of the cost. PC makers, naturally, scoff at the idea—pointing out that millions of consumers are already buying PCs to cruise the Net.

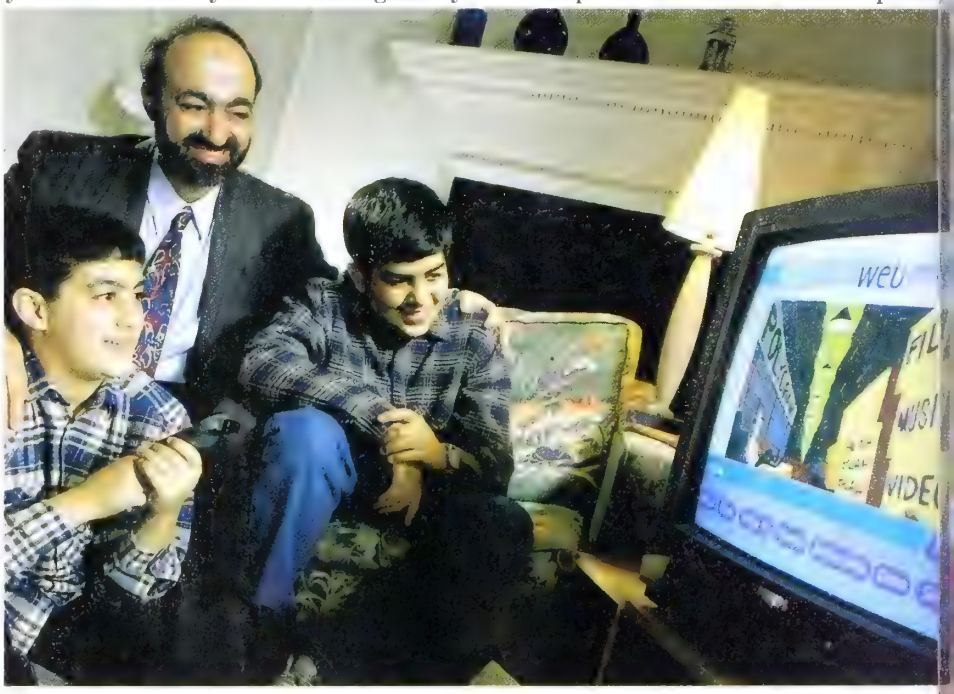
FIRST UP. Nonetheless, the race to create an Internet appliance is on. Virtually all leading consumer electronics companies are working on approaches to "Internet Lite"—inexpensive gadgets to bring the Net into the living room. Philips, Thomson, Sega, and Sony are either retooling existing home machines or developing new ones that will bring Web pages to the TV screen. And their managers—more than those at Oracle, Sun, or even Apple—truly understand consumer markets and entertainment products.

First out of the gate is Dutch consumer electronics giant Philips. In October, its new wholly owned British subsidiary, CD-Online Ltd., began selling a $150 Internet starter kit consisting of a modem, cables, and a disk holding all the necessary software. It turns Philips' $500 CD-i (for CD-interactive) player into a browser that displays Web pages on an ordinary TV. The disk guides you to CD-Online's home page, which contains pointers for navigating the Web. For now, the idea is to give consumers a simple, immediate link to the Web. In the future, Philips hopes to get content providers to create pages that "hyperlink" to material on CD-i disks—to go from today's sports scores to great moments in football, for example.

The setup is aimed at breathing new life into CD-i, a Philips technology t[illegible] has stalled in the market. CD-i v[illegible] built to bring multimedia "edutainme[illegible] to the masses. But the format was b[illegible]ied by the CD-ROM revolution on P[illegible] Philips has sold barely a million C[illegible] players since they were introduced [illegible] 1991. Now, the company figures it [illegible] restart sales by being first to exp[illegible] the Web's "family" dimensions. "P[illegible]ple think the Internet is about trans[illegible]tions," says CD-Online Managing Di[illegible]tor Andrew M. Orange. "It's also ab[illegible] entertainment."

In Japan, Sega Enterprises Ltd. [illegible] taken a similar tack, developing a $[illegible] keyboard and modem package. It [illegible]turn Sega's Saturn game console, wh[illegible] uses souped-up CD-ROM disk techno[illegible]gy, into a communications tool. S[illegible] hopes users will test out and purch[illegible] new games online, and lock their frien[illegible] in mortal combat over the Net. Sc[illegible] Corp. could do the same sort of th[illegible] with its Play Station game machi[illegible]. Just introduced in the U.S., the pow[illegible]ful machine has been a huge hit in [illegible]pan where Sony has sold more tha[illegible] million units since last December.

For now, Sony's Internet strate[illegible] hinges on its world-beating video te[illegible]



Maybe everybody would be roaming in cyberspace if they didn't first have to shell out $2,000 for a multimedia PC and then figure out how to use it

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gies. Last month in Japan, Sony ched two new models of wide-screen that can double as cinematic Interviewers. These premium TVs, which for about $2,500, were designed for -definition TV, so they show images are twice as sharp as ordinary TV ires. Plug a laptop or Mac Power- into the front of the set, and the en becomes a monitor. If an Interrazed market demands higher reson, "prices could come down quick- says Kenji Hori, chief technology er at Sony Corp. of America.

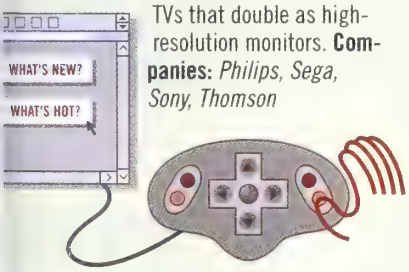
nomson Consumer Electronics, the ing TV and VCR maker in North rica, is also taking a TV-centric apch. Having taught about 1 million . customers how to navigate 150 nels of satellite TV using a remote rol and on-screen menus, Thomson es it can apply the same tricks to rnet navigation. Also, the satellite assumption is that users will draw whatever resources they need from the Internet, rather than paying for them in a box of hardware and software. Using tools such as Sun's Java—a programming language for creating network-based software—it will be easy to tap into any information or programming on the Net, says Sun President Scott McNealy. So, you could get by with a $500 box with a microprocessor and enough memory to hold the software that he calls a "Java virtual machine." The network does all the heavy lifting. Sun is seeking partners to build such a box and Toshiba Corp. has already announced plans to build Java into a "new framework" for mobile computing. Oracle says its sub-PC will be out next year.

Apple Computer Inc. could also emerge as a leader in the race to launch Internet Lite. This month, it is unveiling the next generation of personal digital Intel and a gaggle of PC partners are fighting back with a technology called Intercast. They plan to put TV programming directly on the PC screen and let broadcasters send data to computer users over a portion of the TV signal called the vertical blanking interval.

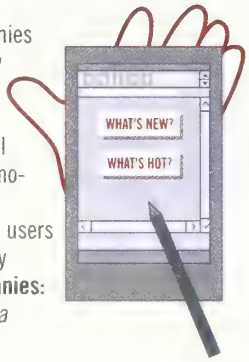
CHATTING. And there are intrinsic problems with Internet Lite. Most Web users like to download some of the treasures they find in cyberspace—they want disk storage. Moreover, PC generations are turning so quickly that Internet-ready PCs based on Intel Corp.'s old 486 chips are selling for little more than the planned sub-PCs. So why settle for a dumb terminal? "There's a lot of hype going on now around $500 or $300 boxes," sniffs Compaq CEO Eckhard Pfeiffer. Says Brad Chase, Microsoft Inc.'s general manager of its Personal Systems Group. "It's a fun thing to chat about at a bar, but that's about it."

WHAT IS AN INTERNET APPLIANCE?

ITERNET SET-TOPS Videogame conles can double as set-top boxes that will let milies surf the Web on TV over phone lines cable. TV makers are building wide-screen TVs that double as high-resolution monitors. **Companies:** *Philips, Sega, Sony, Thomson*



NETWORK PDAs Electronics companies are readying a new generation of personal digital assistants that will provide low-cost, mobile acess to the Internet. Corporate users would tap company databases. **Companies:** *Apple, Sun, Toshiba*



WEB CLIENTS As more programs and software "content" are downloaded directly from the Internet, PCs stuffed with Pentium chips and gigabytes of memory could be replaced by cheap terminals wired directly to the Net. **Companies:** *Oracle, Sun, LG Electronics, Sony*

that bring in sharp digital TV sigcan download any kind of Internet tent" at 23 megabits per second—) times faster than the 14.4-kilobit hone modems in most home PCs.

IVORS. When it comes to cultivat- a mass market, the consumer elecics camp has some obvious advans over PC companies. Its customers ady own—and regularly replace— nost expensive component: the tele- n. And while the PC makers considemselves lean-and-mean survivors six years of price wars, TV compahave been living off huge volumes minute margins for decades. "We about what 100 million households y want," says Louis E. Lenzi, viceident of Thomson's Americas De- Operation. "We aim for the lowest uct cost and the easiest interface." m and Oracle both think the sim- solution is a new kind of low-cost -station or Internet "client." The assistants (née Newton), with an operating system that can access the Net. Apple has teamed up with Tokyo toymaker Bandai Co., creator of the Power Rangers, to develop a sub-Macintosh product based on Apple's "Pippin" design. It should debut in Japan in March, and later in the U. S.

Pippin machines will use scaled-down Apple software, cost $500 or less, and plug into a TV. They will run some programs written for the Mac and also browse the Web. Says International Data Corp. PC analyst Richard Zwetchkenbaum: "Pippin could be their magic card" for the next wave of lifestyle computing devices. Adds Doug McLean, Apple's director of cybertech products: "It won't be long before you'll get Internet service from kiosks, handheld devices, gameplayers, and anything with a wire leading to it."

Powerful forces are arrayed against these Internet appliances. For one thing, There's more to it than talk—if not in Silicon Valley, at least in Japan. There, Sony and Bandai are both setting up Internet access subsidiaries, as is consumer electronics giant LG Electronics in Seoul, which manufactures the 3DO game machine. These companies may not be big in PCs. But they understand plenty about pricing and ease of use.

Market researcher IDC expects Internet Lite gadgets to coexist with higher-function PCs. Over time, predicts Frank Gens, senior vice-president for research, they're likely to become appliances that banks give away to new customers: Sign up for home banking, and you'll get the Internet box for free. "Once that happens, it becomes a completely different PC industry," he says. "If I were Compaq, IBM, or Dell, I'd be thinking hard about that."

By Neil Gross in New York, with Peter Burrows and Robert D. Hof in San Francisco

Big strides are being made. But will hardship derail Zedillo's reform train?

For President Ernesto Zedillo Ponce de León, it was a rare occasion. In a mid-October state visit with President Clinton, his first since the U.S. brokered a $50 billion international bailout for his country, Zedillo basked in praise for his disciplined handling of Mexico's financial crisis. Not a year has passed since Mexico's botched peso devaluation plunged the economy

Cover Story

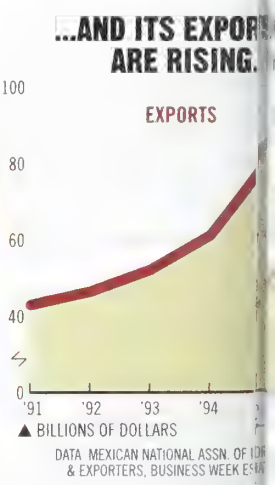
into near-chaos. Yet exports are booming, and the country is borrowing billions again on the international markets. Raising a glass at a lavish White House dinner, Clinton complimented Zedillo on his "courage and determination."

South of the Rio Grande, however, the mood has been far from cheerful and the compliments few. Hardly a day has gone by without a business or labor group demanding that Zedillo let up on the harsh fiscal and monetary controls that he and Finance Secretary Guillermo Ortiz introduced last March. Their aim had been to give Mexico a dose of shock therapy to put it back on track to becoming what had been a dream within reach—a Latin tiger economy linked to the U.S. through the North American Free Trade Agreement.

MUCH PAIN. But as 1995 winds down, it has become increasingly clear that Mexico's recovery will be slower and rougher than anyone, from Zedillo to the most pessimistic analysts, anticipated. Catching a severe case of market jitters, the peso dropped 6.2% on Oct. 26, the worst one-day fall in the currency since January. In response, the government rushed to seal an economic pact with business and labor. Unveiled on Oct. 29, it offers tax incentives to spur investment and create jobs, and promises to target government spending on education, energy, and health in 1996. The peso recovered the next day by 2%, to 6.9 to the dollar, but then resumed its fall.

The Banco de México was forced to raise interest rates again, to 43.3%, to shore up the currency. While some business leaders applaud the government's latest initiative, many voice skepticism that Asian-style expansion is in Mexico's reach anytime soon. Only modest growth is expected next year (charts). "I wonder if the government realizes the degree to which the industrial infrastructure is collapsing?" asks Stephen

MEXICO: A RO



PHOTOGRAPHS BY KEITH DANNEMILLER/SABA

OASIS AT FORD

These workers are lucky: So far this year, 1 million jobs have vanished

P. Knaebel, president of Cummins Engine Co.'s Mexico operation, whose engine sales have plunged. "How are they going to realize their dreams of growth with this virtual dismantling of the industrial base?"

While exports will be up 28% for the year—and now make up an impressive 25% of gross domestic product—companies that focus on Mexico's domestic market are hurting badly. Whole industries, such as truckmaking and construction, have virtually shut down. A million people have lost their jobs—and Mexico has no unemployment insurance to cushion the suffering. Banks, burdened by bad loans, are unable to lend to struggling companies. Austerity shrank the money supply by a painful 57% through August. And 1996 is likely to be another tough year. Mauricio A. González, chief of Mexico City consultancy GEA Associates, says the best-case scenario is that domestic demand will be flat.

Beneath the devastation, however, there are signs that the pain of Mexico's economic upheaval will not be in vain. In fact, the crisis has accelerated key structural changes that were already under way and were making Mexico more attractive to investors. More Mexican companies are streamlining faster—making them more competitive in the world economy. Some are carving out new niches in such areas as high-tech manufacturing. And while the crisis has crimped foreign investment, it hasn't cut it off. Encouraged by NAFTA, U. S. and other investors are shifting work to Mexico—often to midsize cities that could become new growth areas (page 118).

H ROAD BACK

ZATION FOR ECONOMIC COOPERATION AND
T, MEXICAN SOCIAL SECURITY INSTITUTE

DATA: SECRETARIAT OF STATE FOR TRADE & INDUSTRIAL PROMOTION, GRUPO DE ECONOMISTAS Y ASOCIADOS

No one doubts the high stakes involved in Zedillo's effort to steer Mexico further toward recovery. The strength of the rebound is sure to set the tone for the remainder of Zedillo's six-year term in office. Zedillo is presiding over a critical period in Mexico's history. He has to manage both the sweeping opening of the economy under NAFTA and the dismantling of a decades-old feudal political system.

LOST CHANCE? If Zedillo is set back by unrest arising from a prolonged recession—or if he fails to attract higher levels of foreign investment—Mexico could lose its chance to leap into the economic big leagues. Multinational companies are already warning that they might channel more investment to emerging markets such as Brazil if Mexico's domestic market doesn't revive. "Mexico runs the risk of losing the interest of foreign investors," says Philippe Mellier, chief of Ford Motor Co.'s operations in Mexico. Without foreign investment to boost the economy, Mexicans would have to postpone their dreams of prosperity, at least until early next century.

As Zedillo continues to steer Mexico toward recovery, he is

attempting a difficult balancing act. On the one hand, he must maintain investor confidence by continuing a policy of financial discipline. On the other hand, he must be careful not to apply so much medicine that he kills the patient. Like their predecessors in the administration of President Carlos Salinas de Gortari, Zedillo and Ortiz oppose major government intervention in the economy. "There have been a lot of voices calling for higher public expenditures and looser monetary policy," says Ortiz, a Stanford University-educated economist. "I don't think that's the right approach. The recovery is going to be private-sector-led."

NEW NICHES

Some companies are moving into high-tech manufacturing

Ortiz may be right. The private sector is much more important than it used to be, accounting for 75% of economic output, up from 50% a dozen years ago. Ortiz' formula is to turn Mexico into an export platform by keeping the value of the peso low, making the cost of Mexican labor and products cheap (table).

BANKING WOES. At the same time, tight monetary and fiscal restraints aim to discourage the out-of-control consumer spending that helped run up a $29 billion current-account deficit in 1994. That policy worked this year: The current-account deficit is down to $1 billion, and inflation has been kept to 50%, lower than expected. Zedillo aims to bring inflation down to 20% next year. Nevertheless, unemployment is at a record high. And those who still have jobs have seen their real wages fall by 25%. A new proposed minimum wage hike of 21% through next April won't be enough to recover that lost purchasing power.

Cover Story

Business leaders fear that if high interest rates continue, more companies will collapse. That could create new troubles for banks, which the government has already spent billions of dollars to bail out. Some executives also worry that by leaning too far to please financial investors, the government could set back Mexico's chances of attracting direct foreign investment. The country needs huge investments in manufacturing and infrastructure—something on the order of $10 billion a year—just to achieve 3% to 4% growth. If that doesn't materialize, unemployment and unrest may increase, and the economy won't have the resources to make itself competitive—as Mexico's membership in NAFTA demands.

By making Mexico more of an export economy, Ortiz believes he can get the economy growing at 3%, even if companies that don't export perform poorly. But longer term, he says, growth must come from foreign investment, greater productivity, and higher internal savings. Ortiz wants to energize investment on the home front by introducing private fund management to the creaky government social security scheme. The aim is to raise domestic savings from the present 16% of GDP to 24% over five years.

A government task force is drafting a law to create mandatory, privately managed, individual pension plans. "It won't make much difference in the first year," says an official familiar with the plan. "But in two or three years, you will see a substantial pool of savings."

Any tinkering with the sacrosanct social security system faces an uphill fight in Congress, but officials hope pension funds can be introduced by early 1997. Already, international banks with big presences in Mexico, including Citibank and Spain's Banco Bilbao Vizcaya, are planning to offer their own pension-management plans if foreign banks are allowed to participate.

Will all this be enough to sustain the growth Mexico needs? There are broad concerns about whether Mexico's export strategy will put money in enough people's pockets to create robust growth. Big Mexican companies and subsidiaries of international companies dominate exports. Many have been trimming staff in recent years—and layoffs have accelerated since the crisis. One Mexican company, for example, has cut 8,000 jobs in eight years whi doubling output.

Such textbook streamlining may make Mexico more con petitive, but it may not be the right answer for a count with a fast-growing workforce and no social safety net. I deed, a debate is growing about Mexico's model for econon ic growth. Taking advantage of a peso that was overvalue until last year, Mexican companies invested heavily in m chines from Europe, Japan, and the U. S. that are designed t save labor. Now, some argue that Mexico's best hope may l its cheap labor. "People think labor-intensive manufacturing unproductive," says Felix Boni, an analyst at James Capel R search Mexico. "But if labor is cheap and plentiful, there is r

MEXICO'S ECONOMIC DILEMMA

The government is trying to create an export platform while suppressing consumer spending—and inflation. That pleases international financiers, but businesses depending on the domestic market are in trouble.

DATA: BUSINESS WEEK

KEY MEASURES

- ▶ Maintain tight monetary and fiscal policy; keep peso lo
- ▶ Boost internal sa through privatizati of state pension sc
- ▶ Step up privatiza of petrochemicals and communicatior

POVERTY GROWS

The peso crisis caused living standards to plummet

Ford's new North American strategy, based on NAFTA, has also helped shield the company's Mexican subsidiary from a slump. Exports are up, and the company gave the go-ahead to expand an engine plant and start a new component line in Mexico. "I don't know what we could have done without NAFTA," says Ford's Mellier (page 110).

The more open economy is having a profound effect on Mexican companies. Many were family-run and insular, and lacked professional management. Now, as they try to raise capital and take on foreign partners, they are being forced to be more accountable. "Having outside people on the board is foreign to them, but it's going to have to happen," says Claudio X. González, chief executive officer of Kimberly Clark de México and head of the Mexican Business Council. "We're going to be a capital-importing country for quite a few years."

The government is going through a similar transformation. Zedillo is supporting a democratic opening that will curb the near-authoritarian powers of Mexican presidents and introduce real debate on government policies for the first time. Congress has won new powers to oversee government spending. And the government now releases economic information weekly on the Internet—rather than revealing its foreign reserves just three times a year.

SOBERING OUTLOOK. Such changes will likely make Mexico more attractive for outside investors. Some investment funds are already flowing in. Banco Bilbao has paid $476 million for a 70% stake in troubled Mercantil Probursa. And other buyouts are in the offing (page 114).

The government's plans to privatize ports, railroads, and some petrochemicals and to allow private companies to build natural gas networks, will attract billions in investment. Ending Teléfonos de México's monopoly on long-distance communications has reaped commitments for $5 billion in investment. Foreign direct investment is expected to rise next year after plunging by 44%, to $3.5 billion, in 1995.

Nearly a year after the peso crisis, Zedillo can take credit for restoring financial stability to Mexico. But the country's outlook is much more sobering than it was when he took power last December. Before the devaluation, Mexico seemed well on its way to becoming an economic powerhouse. It had even joined the Organization for Economic Cooperation & Development—the club of industrialized economies.

The biggest question facing Mexico is whether, after six years of rising expectations—and one year of seeing them horribly dashed—the country is destined to remain just another emerging market, or whether it still has the potential to become a First World economy.

In coming months, Zedillo will have to prove that he can be much more than a technocrat, or "Manager of the Nation," as one newspaper sarcastically dubbed him. Without abandoning financial discipline, he may need an even bolder strategy than his recent economic pact to jump-start the domestic economy. "Zedillo is very convincing when he meets with foreign officials and investors," says one trusted adviser. "But he hasn't yet succeeded in convincing Mexicans that there is a bright future ahead of them." Zedillo must show that he not only has a vision for Mexico's future but the political skills necessary to make it happen.

By Geri Smith, Stanley Reed, and Elisabeth Malkin in Mexico City

SHOCK THERAPIST

Finance Secretary Ortiz is under pressure to ease his fiscal controls

reason to go for reducing it."

Despite all the setbacks, Mexico is still far better off than it was 10 years ago, before it began opening up. Companies such as DuPont Co. have spent heavily to modernize and pared staff to bring their Mexican operations up to international standards. Although DuPont's do-stic sales have slumped by 35% this year, it has narrowed gap by exporting some 60% of its products. "You have a ch bigger market to think about," says DuPont Mexico esident Raúl Muñoz. "We won't necessarily have Mexico as chief market" in the future.

While small and midsize companies were hit hard by this ar's 8% to 10% plunge in domestic demand, NAFTA provid- a cushion for many larger companies and multinational sub- iaries. When Cummins Engine saw domestic sales of its avy-duty truck and bus engines in Mexico fall 98%, to 45 ts, it switched a production line from Brazil to Mexico. mmins is also bringing used engines from the U.S. to be uilt and sent back north. That helps minimize layoffs.

JENCES

exports and keeps current account in balance, sinesses suffer from slumping demand as loyment soars.

eventually reduce dependence on foreign capital l take several years to pay off. Political opposition ed to be significant.

tract investment and boost competitiveness roving infrastructure, but some industries worry layoffs.

TOP: TOM BRIDGMAN/NAPHS; BELOW: PETER STONE BRADY STAR; NANCY SARA

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SURVIVAL STRATEGIES FROM MEXICO'S FRONT LINES

The economic crisis radically altered Mexico's business environment. With credit rates nearing three figures, the domestic market suddenly dried up. Companies had to come up with survival strategies fast.

Here is how three very different companies cope. Ford, Mexico's leading carmaker, is boosting exports and offering a cheaper line to beleaguered Mexican consumers. Ilusión, a family-owned lingerie maker with a solid name, is taking its first steps across the U.S. border. Mercantil Probursa, Mexico's 10th largest bank, was so shaken by bad debts that its best option was to yield control to a Spanish bank. These three companies, like thousands of others, will emerge changed from this year's crisis. It's one positive consequence of the downturn and a sign that Mexico still has potential.

NAFTA Eases The Way

FORD

The disastrous state of Mexico's auto industry these days hasn't taken the edge off Philippe Mellier's biting wit. Looking at the spectacular view of distant volcanoes from his sixth-floor office in Mexico City, Ford of Mexico's president quips: "If you didn't have a sense of humor, you would commit suicide."

Things aren't as bad as all that for Ford in Mexico, but they're far from

Cover Story

what Mellier expected when he arrived to take up his new post in November, 1994. An energetic 40-year-old Frenchman, Mellier, who had been Ford's boss in New Zealand, thought he would be presiding over a dramatic surge in Ford's business as a result of NAFTA. Of Detroit's Big Three, Ford had moved first to capitalize on NAFTA, restructuring one of its Mexican plants to produce the Mystique and Contour cars as well as some light trucks for both the domestic and export markets. Imports from Ford's U.S. plants would meet the rest of demand in Mexico, which was expected to boom.

Then came the devaluation, which thrust Mellier into the role of crisis manager. His answer: Do whatever was possible to sell some cars in Mexico while boosting exports and cutting costs to contain losses. Ford's strategy is being repeated across Mexico by companies in the auto and other industries. But Ford has managed to do somewhat better than its rivals: Its domestic sales have fallen about 50% this year—vs. 70% for the industry as a whole—while its exports have jumped 22%.

In the midst of the financial crisis, Mellier took several emergency steps. To help his dealer network weather the credit squeeze, he persuaded Ford headquarters in Dearborn, Mich., to provide credit so dealers could buy cars with a 150-day grace period interest. He stopped porting Ford Escort sed from the U.S. and star selling Mexican-made corts instead.

On the line: "The goal is to maximize sales in a very depressed market," says Ford's Mellier.

Mellier and his team a scrambled to slash sticker price of their po lar Ford Mystiques. They took out players, leather seats, and sunroofs t were popular when Mexico was boo ing. Such moves have brought the erage price down about 20% in do terms, although peso prices have s up about 70%. The lowest-priced M tique is now $20,255, including ta "The goal is to maximize sales i very depressed market," Mellier sa

As a result, Ford's share of the M ican market has climbed from 14. in September, 1994 to 18.6% in Aug The improvement comes at the expe of such rivals as Volkswagen. Ford

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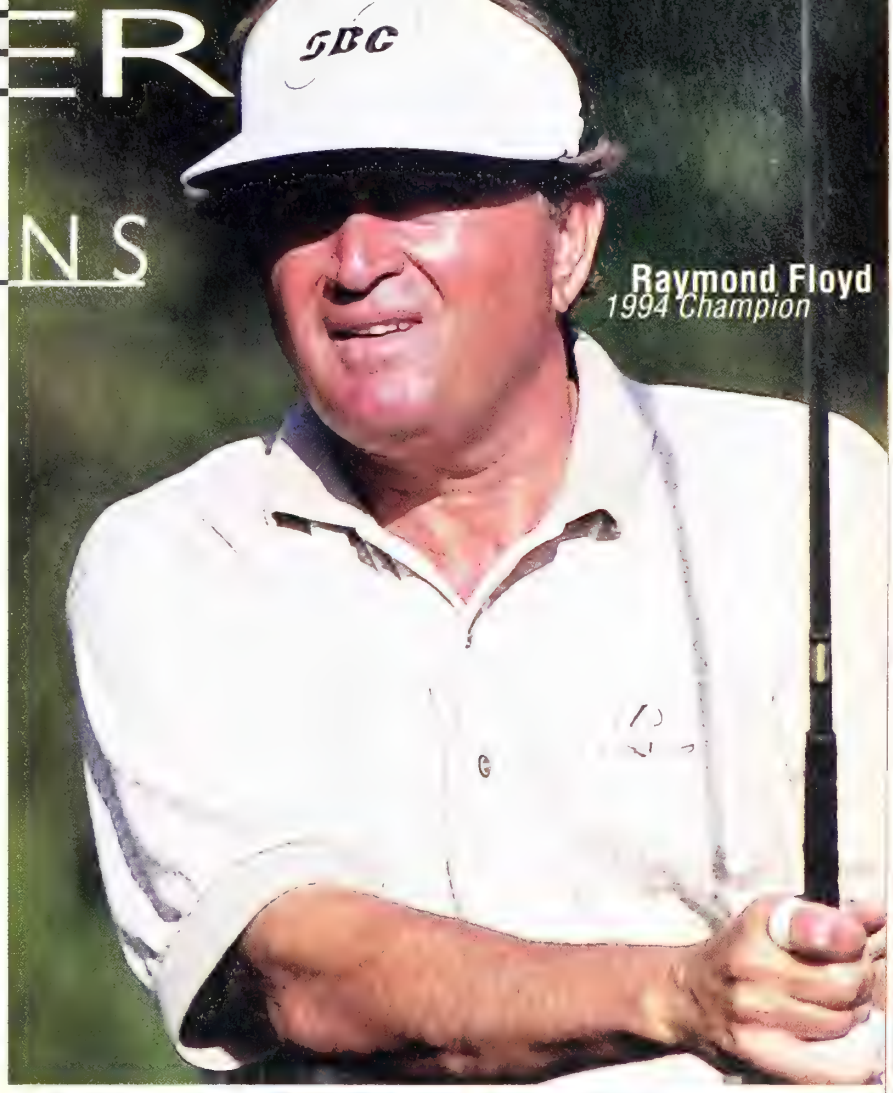
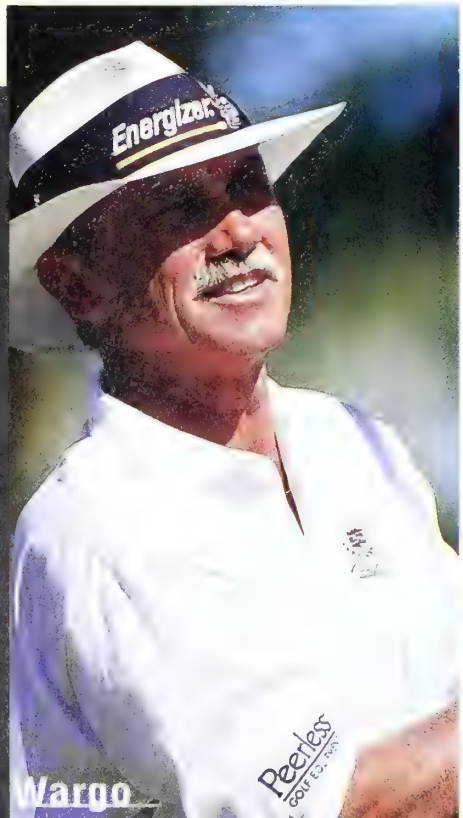
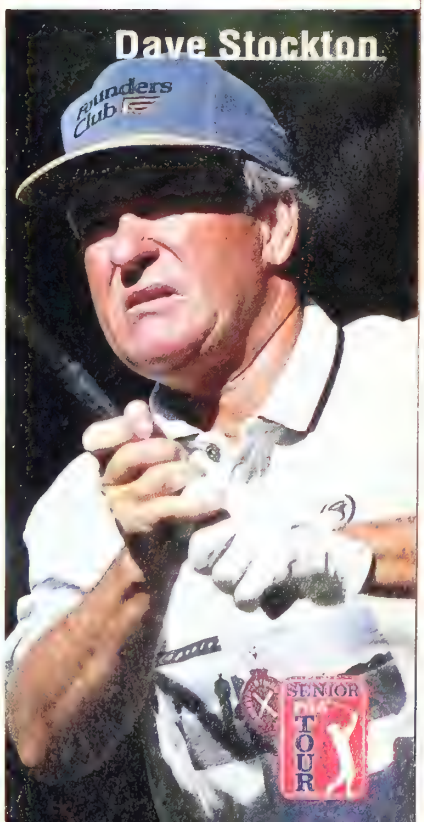


Raymond Floyd
1994 Champion



Tom Wargo



Dave Stockton

"Sarah's leukemia was frightening enough. Then an infection set in that nearly killed all hope."

MICHAEL DEUTSCH, SARAH'S FATHER
BURLINGTON, WISCONSIN

Battling leukemia when you're only six is difficult. Being besieged by a life-threatening infection on top of it is devastating.

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solidified its lead as No. 1 in sales. Even so, Mellier says: "It is going to be difficult to make money" this year.

Ford's dealers give Mellier good marks for keeping them above water. "Ford has done the best," says Andres Ocejo Gómez, a Mexico City dealer and chief of the country's Ford dealer asso-

ciation. Only two of Ford's 127 dealers have folded. Meanwhile, NAFTA has helped Mellier persuade Ford U.S. to shift some of its auto-parts business to Mexico, which helped him minimize layoffs. Ford has only slashed about 900 of its 17,000 workers, which includes those at its parts factories. That compares with layoffs of 20% at Nissan.

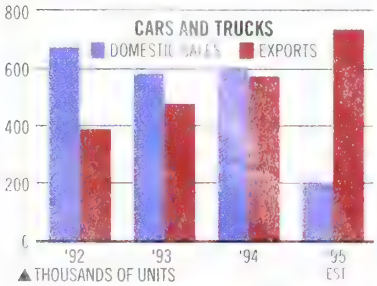
Despite this year's travails, Ford is still committed to Mexico—for now. The company is going ahead with investments of $450 million to retool plants and boost production of components.

INCENTIVES. But looking ahead, Ford executives see reasons for concern. They worry the market may not recover until 2000. If policymakers aren't careful, Mellier warns, companies will shift investments to countries such as Brazil where demand is far higher. "We cannot survive only by assembling things and exporting them," says Mellier. "We need a strong internal market and local revenue."

The government appears to be listening. In a bid to boost new car sales, officials announced on Oct. 30 the end of Mexico's new-car tax that, when combined with the value-added tax, increased the price of "luxury" cars by as much as 50%. The government will also allow companies to take tax deductions if they buy new cars. Still, if Mexico's recovery doesn't pick up, tax breaks won't be enough. Mellier will have to find more new ways to keep Ford's operations going—or watch the company's investments flow elsewhere.

By Stanley Reed and Elisabeth Malkin in Mexico City

THE NEW SHAPE OF MEXICO'S AUTO INDUSTRY



DATA: GRUPO FINANCIERO BANAMEX ACCIVAL MEXICAN AUTOMOTIVE INDUSTRY ASSN

Investor To the Rescue

MERCANTIL PROBURSA

Spanish banker Miguel Navas knew when he came to Mexico City in October, 1994, that he had a tough task ahead. His bank, Banco Bilbao Vizcaya (BBV), had paid $136 million for a 20% stake in Mercantil Probursa, one of 18 Mexican banks privatized in 1991 and 1992 after a decade of government control. Although the banks had sold for premium prices, BBV wanted a foothold in Mexico, whose economy seemed to have endless promise. Now the bank was in trouble, and he was assigned to help.

But Navas never dreamed that a massive peso devaluation would make his mission all the more urgent. With Probursa crushed by a mountain of overdue loans, BBV spent $340 million last July to increase its ownership to 70% and shore up Probursa's capital, and it began remaking the bank from top to bottom. "We've had some very difficult moments, with a lot of tension," admits Navas, Probursa's new general director, who routinely works 13½-hour days. "But if we didn't believe it was a good business, we wouldn't be doing it."

Probursa, founded in 1933 by members of Mexico's small Jewish community, is a prime example of the changes Mexican companies are going to go through as foreign investors increase their influence. Perhaps no industry needed a shakeup as badly as Mexico's banking sector. After 10 years of state control, banks such as Probursa were technologically backward and had little experience in lending money. Last year, about 6.5% of Probursa's loans were in arrears because of high interest r following the Chiapas uprising. W the devaluation pushed interest r on floating-rate loans to 105% in A Probursa's portfolio of bad loans r than doubled, to 16%.

Navas: Nov Mexico is " another emerging country"

IMPORTED TALENT. Most other Mex banks were no better off. Indeed, government was forced to seize this year to save them from colla and spent more than $2.5 billion to seven others recapitalize and set a reserves. Says Navas: "I came her 1994] to a Mexico that had a tr phant economy, and today it's just other emerging country."

Nevertheless, Navas has been bus the past year, he has laid off about employees, or 20% of the workforce. E experienced Spaniards were transfe from Madrid to head Probursa's mair partments. Navas sold off a major c building and consolidated operatior the bank's modern, art-filled headq ters. And since BBV won control in officials have been cleaning up Pro sa's books, writing off over $330 millic bad debts and renegotiating loans customers. In October, Probursa be lending again—cautiously—to the co rate customers they judge most likel weather this year's economic storm.

Following BBV's lead, other for banks may play bigger roles in rema Mexico's financial system. Canada's E of Nova Scotia is negotiating to turn

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minority stake in Inverlat into a controlling position. In another deal, two European banks may take control of their Mexican partner, Bital.

Cover Story

The government is likely to offer big concessions to foreign institutions to rescue struggling Mexican ones. In the case of Probursa, the government bought $1 billion of the bank's overdue loan portfolio at a 20% discount, and pays the new bank owners a fee to administer the loans. Finance Secretary Guillermo Ortiz has made it clear that he won't let any Mexican bank fail. Instead, he wants to see a consolidation of banks.

BANK BASHING. For Navas, Mexico has provided a real learning experience. He says he was "shocked" by how little consumers know about banking and by their "contempt" for banks. "They believe that everything bad that was happening to them was the fault of banks," he says. For months, angry debtors staged protests outside bank branches until the government came up with $1.2 billion in subsidies for lower interest rates on overdue loans.

The coming months will likely see more changes for the banks. If the economy begins to pick up soon, their worst difficulties may be over. But a period of consolidation is sure to follow. As the Probursa experience shows, banks that are not strong enough to make it on their own face upheaval and possible takeover, whether they want it or not.

By Geri Smith in Mexico City

Now It's Export or Die

ILUSION TEXTILES

Former President Carlos Salinas de Gortari constantly preached to Mexican businesses that they had to "modernize or die." The Romano family, owners of the Textiles Tizayuca cloth and garment-making complex, took him at his word.

At their plant in Tizayuca, about an hour's drive from Mexico City, they have assembled an impressive array of state-of-the-art machines. The looms whir and hum 24 hours a day as they take raw yarns and spin them into lace and silky fabrics. In an adjacent facility, more than 600 seamstresses fill a cavernous room. Their sewing machines turn the materials into some 1.2 million slips, camisoles, bras, and panties each month. Most are sold under the Romanos' Ilusión brand.

Companies like Ilusión, which marry technology, intensive labor, and exports, could be a model for Mexican economic development, especially if the peso remains low. "The more labor a product involves, the better it is for Mexico," says David Romano, 36, an industrial engineer who helps manage the factories. "That's where our strength lies."

The Romanos are among the few proprietors of Mexican textile companies who have invested big recently. Last year, they took delivery of $4 million in new Italian and German-made equipment. The last crates were delivered just weeks before the currency devaluation that sent Mexico's economy into a nosedive and their business into a slump.

"Our strength lies" in intensive labor, says David Romano

But at a recent breakfast of fried eggs and frijoles in the factory dining room, the Romanos insisted they were not discouraged. "We still believe in Salinas—not in him as a person, but in his proposals for changing the economy," says Benjamín Romano, 40, the marketing and advertising director. "Salinas was pushing the country to be prepared to compete. This has been a tough year, but our new infrastructure is ready to fly."

LOOT OF THE LOOMS. Ilusión, founded 45 years ago by the Romanos' parents, had never exported. But within weeks of the devaluation, they began courting distributors and department store chains in the U.S. They now send 10% of production to the the U.S., Central America, and the Caribbean—hoping to boost exports to 20% next year. Ilusión employs about 1,350 people. Wages for their blue-collar workers range from a minimum of $120 a month to $240.

Of course, the peso crisis has not left Ilusión unscathed: The family-ow company won't reveal its earnings concedes that sales were down through September. "We'll make less than in other years," says D "but it will be better than break-ev

Ilusión had been growing 15% to a year before the devaluation, thanl the slow-but-sure expansion of Mex lower and middle classes. Yet the manos expected that the opening of ico's markets would let in a flood o expensive Asian-made undergarme so they invested regularl new equipment that woul crease the quality of their ments and lower costs. M other textile companies that not bother to upgrade went ly-up as they lost out at h and were unable to export.

So far, Ilusión's U.S. sales are ma to Hispanics who know the compa brand name. When the Romanos be taking samples to buyers at U.S. partment store chains, they were am to discover that some were unaware tariffs on Mexican-made garments been eliminated under NAFTA. And n seemed reluctant to deal with a Mex company without a U.S. sales office

One U.S. chain that has expre interest is J.C. Penney, which sent resentatives to the factory in Tiza several times. The companies h worked together to improve quality-trol procedures.

As its export business expa Ilusión is continuing to invest. I spending $600,000 on a water-treatn plant to reassure U.S. customers of company's observance of environme standards. There's no doubt about t plans for their company: The Roma plan to be around for a long time.

By Geri Smith, Stanley Reed, in Tizay

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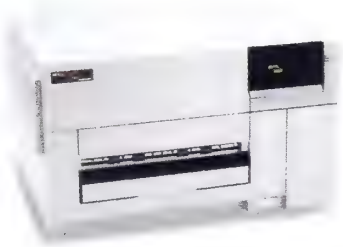

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IT'S BETTER IN *LA PROVINCIA*

Why native and foreign companies are fleeing Mexico City

Octavio García unwraps a candy and looks out his office window at the rolling scrubland dotted with cacti. Since leaving Mexico City's corrosive air and workday stress, the plant manager at TRW Inc.'s new power-steering systems factory in Querétaro hasn't looked back. "I don't miss the big city," says García, a Mexico City native. "I

Cover Story

would be dead already if I lived there."

When TRW looked around for a plant site last year, it immediately ruled out the anarchic jumble of the capital. In Querétaro, the company found a skilled workforce and highway connections to auto-assembly plants throughout central Mexico. The industrial parks of this bustling business hub are just 20 minutes from downtown's tree-shaded colonial squares and the 16th century convent where the Hapsburg Emperor Maximilian spent his last night before being executed in 1867. A comfortable 2½-hour drive northwest of Mexico City, Querétaro is home to multinational corporations that produce everything from gas stoves to breakfast cereals.

A growing number of corporations are flocking to *la provincia*, Mexico's smaller cities. They're attracted by a capable and cooperative workforce, cheap land, and convenient locations. Mexico's export push will only accelerate the flight from *La Capital*. And President Ernesto Zedillo's decentralization drive will give the country's 31 states new control over spending federal funds on infrastructure to attract industry.

PARK PERKS. Although Mexico's economic ordeal has slashed foreign direct investment to less than half of last year's $8 billion, analysts expect it to rise next year—drawn by export prospects and the reviving domestic economy. The lion's share of new plants will go to cities with populations of 500,000 to 1 million.

It doesn't take much to sell foreign companies on moving to Mexico's boonies. There, they can set up shop in preplanned industrial parks while leaving behind the fractious unions, rapacious bureaucr and traffic snarls of Mexico City. S governments smooth the paperwork lean heavily on local unions to keep vestors happy.

Behind these moves lies a major s in the Mexican economy. It made se for companies to build plants to se big consumer markets in Mexico C Monterrey, and Guadalajara when economy was protected in the 1970s early '80s. As Mexico opens up m companies are opting for easy acces imported supplies and export routes

Among the centers of such acti are the Big Three auto plants in Her sillo and Saltillo, which are bringing foreign and Mexican supplier operati The tiny central state of Aguascalier is home to almost three-quarters o Japanese investment in Mexico, sp headed by a Nissan Motor Co. p that produces for the local market for export. Despite this year's econo tremors, Texas Instruments Inc. is p ning to expand its electronics pl which should create 1,000 jobs.

Auto parts makers, such as Cumm Engine Co. and AlliedSignal Inc., su car- and truck-assembly plants aro the country from San Luis Potosí. E tropical Mérida, which once produ only sisal, has used its low wages access to Gulf of Mexico ports to courage a textile *maquiladora* indus

In city after city, once new pla get up and running, consumer com nies and other players follow. Ace Ha ware Corp., seeing a fast-growing underserved market, has put each its 70 Mexican stores in smaller citi

"WOULDN'T GO BACK." Meanwhile, s cities are attracting design comple Thanks to top-notch engineers tur out by local universities, the city Querétaro boasts more than 30 resea centers. Condumex, a Mexican supp of telecommunications equipment, a parts, and plastics, concentrates its work in a research center in a Que taro industrial park. Says Mexico C refugee Daniel Aguilera, an engineer the center: "I wouldn't go back if paid me."

That kind of talk reflects a ma change, since Mexico City has been hub of power since fore the Spanish C quest. Ultimately, shift of investment smaller cities will h the country grow m equitably. Other Me cans call the residents the capital *chilangos*, a term to in their supposed arrogance. These d *capitalinos*' country cousins have g reason to think they're better off.

By Elisabeth Malkin in Quer

ONSTRUCTION

ALL ROADS MAY SOON LEAD TO THE TRIANGLE

ıe Israel-Jordan-Palestine region could boom

AQABA: *A Jordanian-Israeli airport would serve Eilat, too*

■he year is 2005. Your Palestine Airways flight from Heathrow lands at the sleek new airport in Gaza. A minute cab ride away, you check in the Peace Palace Hotel, a new Israeıeach resort financed by Saudi and waiti investors. Next morning, in a eting with loan officers from United nk of Tel Aviv & Amman, you are ured that arranging Jordanian-dinar ıncing for your new chip factory in ael will be no problem. After all, Isıl, Jordan, and Palestine signed a ·akthrough currency union in 2004.

Fantasy? Yes. Impossible? No. Ask 1,100 executives from Israel, Arab ıntries, and other lands who broke ·ad and talked deals at a three-day nomic conference that ended on Oct. in Jordan's capital, Amman. It was, many, a first meeting between forr enemies. And it could be the nching pad for a new era in the Mid- East.

LTINATIONAL RUSH. One who attend- Jordanian businessman Samir M. war, has already had a taste of the ıre. Last year, the telecommunicaıs entrepreneur was one of the first danians to travel openly to Israel. w he's negotiating with Israeli highh companies to bring technology to ·dan. "Within one year," predicts war, "we'll see a change in attitude t will make this kind of dealmaknormal."

What Kawar and others like him are neering is probably Middle East's most mising new frontier: emerging economic ·tnership of Israel, dan, and Palestine. :h its skilled work:e and strategic loion, the Triangle—as area is being ed—"could take off ckly," says Henry :am, chief economist Saudi Arabia's Naıal Commercial Bank. The U.S. and its reınal allies are determined to reap an economic payoff from the Middle East peace process. That is why Israeli Prime Minister Yitzhak Rabin, Chairman Yasser Arafat of the Palestine Liberation Organization, and U.S. Secretary of State Warren Christopher went to Amman to bless the meeting, chaired by Jordan's Crown Prince Hassan. Unlike the Egyptian-Israeli peace, which has been buttressed by billions of dollars of U.S. aid, the plan this time is to rely largely on private business initiatives.

That is happening in Jordan. It recently liberalized its tax and investment laws and signed a trade pact with Israel. Now the Arabs and Israelis are trying to coordinate policies on everything from finance to tourism through the Amman-based Regional Economic Development Working Group and other forums. Also in the works is a $5 billion regional development bank to be based in Cairo.

Already on the drawing boards: billions of dollars' worth of joint projects, such as a Jordanian-Israeli airport to serve the ports of Eilat and Aqaba and tourist facilities on the Red Sea. Multinationals are rushing in. Sprint Corp. has announced a deal to launch Internet and E-mail services in Jordan. And Amoco Corp. is working with Italy's AGIP on a $300 million pipeline to bring Egyptian gas to the Triangle (table).

None of this means there will be no outbursts of political tension in the next few years over issues such as Israel's continuing controls in the West Bank and Gaza. "Until the political problems are solved, there is no way for Palestinian companies to embark on any real cooperation with the Israelis," says Yousef Ghanem, general manager of investment company Palestine Telecommunications.

LURING BACK CASH. There are fewer barriers between Israel and Jordan. Israel's Delta Galil Industries is setting up a joint venture in Jordan with Amman-based Century Investment Group. But Omar Z. Salah, Century's 28 year-old CEO, says he is taking heat from other Jordanians for dealing with Israelis.

Political progress in the region is also luring funds stashed abroad by wealthy Palestinians. Amman's Zara Investment, led by Palestinian tycoons Sabih Masri and Khalil Talhouni, plans to cash in on booming tourism by building five hotels in Jordan, including an $80 million Hyatt hotel-and-business complex.

All the dealmaking is a far cry from 1972, when Lova Eliav, a leader of Israel's Labor Party, was virtually ostracized politically for advocating a Palestinian state and Israeli-Jordanian-Palestinian cooperation. As it turns out, he was merely ahead of his time.

By John Rossant and Stanley Reed in Amman, with bureau reports

Crossborder Deals to Link the Region

PROJECT/BACKERS	COST
Telecom links between Israel and Jordan / *Bezeq & Jordan Telecommunications*	$540 million
Taba-Eilat-Aqaba Ring Road / *Local Governments*	$400 million
Gas pipeline from Egypt to Israel, Jordan, and Palestinian area / *Amoco & AGIP*	$300 million
Electric grid interconnections / *Israeli, Jordanian, and Egyptian utilities*	$250 million
Four bridges over the Jordan River / *Japanese and German financing likely*	$50 million

REAL ESTATE

HAS SAM BEEN MINDING THE STORE?

With parts of his empire languishing, Zell is bolstering management

He is in New York, maneuvering for control of the huge Rockefeller Center office complex. Or he is in Japan, trying to convince Japanese banks to sell him some of their U.S. real estate. Then again, he could be in Chile, motorcycle-riding with a bunch of buddies known as Zell's Angels.

Peripatetic doesn't begin to describe Sam Zell. The charismatic Zell has amassed a fortune over the past three decades by spying value in assets others have spurned. He heads an empire that sprawls across 16 industrial and service companies, 6 large real estate partnerships, a huge buyout fund, and 2 public real estate investment trusts. Corporate holdings churn out $12 billion in revenue; real estate holdings total $5 billion.

Yet as his holdings have multiplied, it's becoming clear that Zell's seemingly on-the-fly, one-man-band management style isn't working as well as it should. Returns at some of his holdings are languishing. He is now working to install a broader management team that will free him to spend more time on what he does best: buy undervalued assets. "I can make more of a contribution if I'm not on the line," he says.

MISSED OPPORTUNITIES. Zell is the first to acknowledge that scouting out bargains, both in the corporate arena and in real estate, will be tougher in coming years. "I still think the world is full of opportunities, but I don't see massive opportunities for huge deals," he says. "Investments require lots of discipline and managerial skill. Cowboys can't play anymore." But he still plans on being a major player. Right now, he is in the midst of raising up to $500 million for a new real estate fund with Merrill Lynch, and he has spearheaded a $1.1 billion bid for Rockefeller Center Properties.

But shoring up management is task No. 1, to improve the spotty performance of a number of Zell entities. Zell is chairman or chief executive, or both, of a dozen companies in his panoply of holdings. One of his biggest challenges is dealing with the private Zell/Chilmark Fund, a $1 billion buyout fund targeting public and private companies that was launched in capital-squeezed 1990. One former executive says Zell missed several early investment opportunities because he was scrambling to deal with debt-laden companies he had built up in the 1980

Several of the fund's investmen seem to be winners. Drugstore cha Revco D.S., mattress maker Sea Corp., and Jacor Communications In the radio group, are performing well.

But there have been some emba rassments. The fund's investment $260 million in Broadway Stores In a West Coast retailer that emerge from bankruptcy in 1992, was near wiped out this summer as the compar came close to the edge again. Broa way was rescued by Federated Depar ment Stores, and the fund was paid Federated stock, which is now value about 20% less than the fund's initi

The Zell Empire

PROSPERING

ANIXTER INTERNATIONAL (AXE) Integrated network and cabling firm formerly known as Itel. A strong performer. Owns 30% of Antec.

VIGORO (VGR) Acquisitive $1 billion fertilizer company becoming a major producer and distributor across North America.

MIXED

REAL ESTATE INVESTMENT TRUSTS (REITs) Equity Residential Properties Trust (EQR) owns apartment complexes in 30 states; Manufactured Home Communities (MHC) owns manufactured housing in 20 states. Both face performance challenges.

ZELL/CHILMARK FUND Private, $1 billion fund pursues corporate turnarounds. Zell is taking management control to boost lackluster returns. Stronger holdings include Jacor Communications, Revco D.S., Sealy. Weaker companies: Midway Airlines, Quality Food Centers, Bell Sports.

ZELL/MERRILL LYNCH REAL ESTATE OPPORTUNITY PARTNERS Series of private funds has $1.5 billion to invest in distressed real estate properties. Performance varies widely among the three funds. Fourth fund, now being marketed, aims to raise $500 million. But it will face sharply increased competition for the shrinking number of lucrative deals.

STRUGGLING

AMERICAN CLASSIC VOYAGES (AMCV) Owns two overnight cruise lines. Just now recovering from big cost overruns and delays on bringing new ships to market.

ANTEC (ANTC) International communications technology company suffering from a sales slowdown and higher operating and interest expenses.

CAPSURE HOLDINGS (CSH) Holding company for specialty property and casualty insurance subsidiaries. Management is strong, but company's markets are soft. Having trouble finding acquisition to buy with excess capital.

DATA: BUSINESS WEEK, EQUITY GROUP INVESTMENTS INC

stment in Broadway Stores' stock. ther difficult investment is Midway nes, which has consumed $30 million ıe fund's money. "It makes money e months and others it doesn't," David M. Schulte, head of mer- t-banking operation Chilmark. "It either be very good or very bad." 'hile Zell/Chilmark's 15% returns d good to the average investor, pen- funds and other large investors ex- ed annual compound returns north of from the 10-year investment. "We're in the fifth inning, but they have a ɔ do to get to 20%," says William F. n, president of AMR Investment Ser- Inc., the pension arm of AMR Corp. e he says it is "very realistic" to t that the fund could hit the higher ets, "now is the time to focus on oving earnings and getting the reen- ering process going."

ıe performance of the Zell/Merrill h funds, which target distressed erties, is also a mixed bag, although re well ahead of real estate bench- t indexes. Zell and Merrill have d $1.5 billion in real estate funds 1988. The internal rate of return und I, which raised $410 million in , approaches the low double-digits, a knowledgeable source. The $450 ɔn Fund II, which came out in 1991, ɔerformed far better. Robert I. Helliesen, a pension-fund consultant with Dorn, Helliesen & Cottle in Berkeley, Calif., says that for the three years ending June 30, 1995, it has returned almost 15% compounded annually. Zell places its returns closer to 30%. But the $682 million Fund III has suffered from a more competitive market. Helliesen says it returned just about 10% over the past year, though Zell places its return closer to 20%.

Fund IV will come online just as a real estate recovery is fueling a scramble for properties, boosting prices. "The competition that Zell has now for troubled assets is incredible," says Donald G. Rundbolm, a senior director at KPMG Peat Marwick. "Buyout funds will have a harder time putting the money out—and they'll get more modest returns."

Management troubles have also buffeted some of Zell's other holdings. At first, Manufactured Home Communities (MHC), a real estate investment trust (REIT) that went public in 1993, looked like a home run. But a large acquisition left it saddled with overhead, sparking an earnings slide that sent the stock from 24 in mid-1994 to 16½ on Nov. 1. "Sam and the management were guilty of not watching the store," says Michael Kirby, a principal with institutional REIT research firm Green Street Advisors. "Effectively they doubled the size of the company, while the CEO, Randall Rowe, was working part-time."

Zell is moving to quell some of these troubles. Earlier this year, he shuffled MHC's management, moving Rowe to another entity, and stepped in as acting CEO. Performance has improved as a result. But Kirby says management remains an issue: "Is this just another of Sam's entities within his big organization that gets short shrift on the management front? Can Sam be CEO of this while he's out trying to buy Rock Center and run 25 other companies?"

SIGNS OF RETOOLING. In an effort to assure investors that he is not stretched too thin, Zell is handing over more responsibility to two trusted lieutenants. One is Rod F. Dammeyer, an executive who oversaw the buildup and subsequent unbundling of Itel Corp., now called Anixter International Inc., which was one of Zell's first corporate investment vehicles. The other is in-house lawyer Sheli Z. Rosenberg. "When we were significantly a private group of companies, Sam was the key," says Rosenberg. "Now that we are significantly public, we have a fiduciary obligation to demonstrate we aren't a one-man show."

Another sign that Zell is retooling the way he manages his empire came late this October. Investors in the Zell/Chilmark Fund shifted management control away from Schulte to a Zell-led group. Dammeyer will be the point man. Part of the explanation lies in the differing aims of Zell and Schulte: Schulte wants to raise another fund; Zell wants to improve and add on to the existing portfolio. "The greatest opportunity in the U.S. is in relatively micro deals," Zell says.

He also says there's still opportunity in commercial real estate, betting that, in contrast to previous boom-bust cycles, developers and lenders won't rush to throw up scores of new office buildings. Not everyone is so sanguine: "Banks have short memories," says Michael Evans, national director of E&Y Kenneth Leventhal Real Estate Group. "And we're already seeing speculative developments across the country."

Sam Zell made most of his money when assets were cheap, when there were few buyers and plenty of sellers. It will be very interesting to see how a man known as the "grave dancer" copes at a time when the market for assets is very much alive and kicking.

By Richard A. Melcher in Chicago and Suzanne Woolley in New York

EVEN ZELL ADMITS THE GAME HAS CHANGED

The mogul is hunkering down to tighten management and improve some spotty returns, but he is still out raising money for deals

INSURANCE

BENDING THE RULES —OR BREAKING THEM?

Insurance regulators say Paul Yorke-Wade plays fast and loose

Paul Yorke-Wade, a 47-year-old international insurance consultant based in Dublin, insists he is misunderstood. "Every time someone mentions my name, people go berserk and say, 'There is the master criminal,'" the Englishman says with amusement. In fact, he says, his consulting firm simply provides a variety of routine services to his clients, including back-office support and help in sorting out disputed claims.

UNPAID CLAIMS: *Sanghvi and her daughter had to take out a loan when fire hit their motel*

Insurance regulators, who are busily investigating a number of his clients, have a far different take on Yorke-Wade. To them, he is a key figure in a loose network of insurance brokers, agents, and consultants who promote the interests of questionable offshore insurers around the world. Individuals like Yorke-Wade, regulators claim, play a central role in guiding insurers to develop schemes that target thousands of small business owners, such as jewelers and motel operators, who often have trouble getting insurance. Experts say losses by policyholders could be as high as hundreds of millions of dollars every year. The companies' usual *modus operandi*, regulators say, is to collect premiums and then disappear or go bankrupt, leaving substantial unpaid claims in their wake. "Any of [Yorke-Wade's] activities should receive close scrutiny," cautions Chuck Huff, the former chief investigator for the Georgia Office of Commissioner of Insurance.

Trouble does seem to follow wherever Yorke-Wade goes. Several of his clients are under investigation in Belgium, forbidden from operating in a number of states in the U.S., and defending themselves in at least 20 actions brought by irate policyholders.

Yorke-Wade insists that his activities are perfectly legal. But he acknowledges pushing the regulatory envelope: "We are here to exploit the rules." Many of his clients operate in countries with lax supervision such as Belgium, which c not regulate reinsurers at all. The c panies' promoters often use regulat loopholes or ignore insurance laws a gether to sell policies where those c panies are not licensed.

Paul Yorke-Wade has spent much his adult life learning to master the ances of regulation. He was raised New Zealand and Malaysia, where father was a policeman. After finish high school in Britain, Yorke-Wade s he joined Lloyds of London as a bro at the age of 18. He set up his c business in 1985.

Yorke-Wade first gained notori with a company called Victoria Ins ance Co. In 1987, he helped a gr of outside investors incorporate toria in Georgia. By the end of 19 Victoria was in receivership, with estimated $20 million in unpaid clai A 1991 U.S. Senate inquiry into Vi ria's failure found that the compa $1.2 million in required capital been transferred to a London acco for a company run by Yorke-Wa That transaction effectively left toria insolvent.

"I AM BLACKLISTED." Yorke-Wade c tends he transferred Victoria's cap to an outside firm for investment der the owners' orders. Yet he says failure has marked him for life. "I blacklisted by every regulator in world," he says.

The slippery nature of the Vict deal is echoed today in the operation Global Insurance Co., a Uruguay-ba Yorke-Wade client that also focused tough-to-insure risks. Agents for bal sold coverage to motel owners taxicab companies in at least five st despite the fact that the company not licensed anywhere in the U.S. S August, 1994, four of these states h issued orders bar additional Global sa

Insurance age say Global has paid many claims. within the past yea mounting number customers have fo it impossible to coll Vandana Sanghvi, came to the U.S. f India in 1972, ha Global policy on Tuscaloosa (Ala.) tel when a fire sta by a faulty la caused more t $260,000 of dama But a series of Gl agents and repres

Paul Yorke-Wade's Troubled Clients

CLIENT	BUSINESS	ACTIONS
VICTORIA INSURANCE *Licensed in the state of Georgia in 1987*	Property and casualty insurance, including disability insurance for professional athletes.	Placed in receivership by Georgia in 1988. $20 million in still unpaid claims.
GLOBAL INSURANCE *Registered in Montevideo, Uruguay*	Specialty property and liability insurance lines.	Cease and desist orders issued in several states. Many lawsuits allege nonpayment of claims.
AZTECA INSURANCES *Registered at Global's address*	Reinsurance.	Cease and desist orders issued in several states.
DAI ICHI KYOTO REINSURANCE *Registered in Brussels, Belgium*	Reinsurance, including coverage for European auto racing teams.	Under investigation by Belgian authorities.

DATA: COMPANY FINANCIAL DOCUMENTS, INTERNATIONAL INSURANCE REGULATORY AUTHORITES, NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

ives told her they had no authority to y on the claim. So last January, she ›k out a loan and paid for the repairs rself, largely through the motel's in- ne. "That was the worst year of our ;," recalls Sanghvi's 19-year-old daugh- ', Avani Gandhi.

Yorke-Wade says problems surround- ; the company's unpaid claims in the S. are the result of shoddy under- iting by Winmill International Inc., ich acted as Global's primary repre- ıtative in North America. He insists ıt Global received less than $2 million the roughly $18 million in premiums 'd to Winmill and other agents. And says he was only hired in August, 94, to resolve problems at Global, ich has ceased writing new policies. nmill officials declined to comment.

UT DOWN. Another Uruguay-based rke-Wade client is Azteca Insurances. ·ll after Yorke-Wade began handling ninistrative services for the company, agent sold insurance to a California npany, contending that Azteca was ·mpt from state law under the North ıerican Free Trade Agreement. "I al- st got there with the NAFTA thing," 's Yorke-Wade of the agent's efforts. t not quite. The insurer was shut vn in three states, including Califor- , this year for selling workers'-com- ısation insurance without a license.

Three other Yorke-Wade clients have red up even more controversy. Com- ints of unpaid claims in the U.K. ırked a police investigation in Bel- m into three Brussels-based compa- s, Dai Ichi Kyoto Reinsurance Co. l two sister reinsurers. Police raided companies' offices in late September. e former policyholder, the Formula acing team Jordan Grand Prix Ltd., suing Dai Ichi and others for $2.5 lion. The team's attorney claims that i Ichi owes it money on a policy that ked in income based on how it fared competitive rankings.

Yorke-Wade argues that as a reinsur- Dai Ichi has no direct obligation to Jordan team. He says that any prob- ıs at Dai Ichi and its sister companies m from problems with the previous side consultant. The reinsurers are v winding down their business.

Authorities are currently trying to ·avel the activities of Yorke-Wade l some of his clients and, they hope, ·ntually press charges against the npanies. For now, however, Yorke- de will likely continue helping his ·nts test the regulatory bounds. 'hatever people say about me," he 's, "I know the rules." That's likely to ·p regulators busy for some time.

By Amy Barrett in Washington, with ıda Bernier in Brussels and Tomoko ·tahashi in Tokyo

A BRAND-NEW EXPERIENCE IN THE TOWNSHIPS: BANKING

Why South African banks are wooing black customers

Joseph Raditsele, a middle-aged laborer at a paint company, is exactly the sort of new customer First National Bank had in mind when it opened a branch in Soweto. Raditsele had never had a bank account before and used to keep his savings under his mattress. Then, he began to fear the possibility of burglary. "The money will be safer at the bank," he says.

South Africa's big banks are going all out to woo clients such as Raditsele. It's not that the market is lucrative. But post-apartheid, it's up to banks to lead the way to economic independence for South Africa's black majority. "If people don't use banks, the prospects for this country aren't very good," says Bob Tucker, CEO of year-old E Bank, which was created by Standard Bank of South Africa Ltd. to help fill the void.

SOWETO ATM: *An untapped market of 10 million*

The government is pressuring the banks to be agents of change. In recent bidding for the coveted banking business of South Africa's nine new provincial governments, authorities chose the winners in good part based on their commitment to affirmative action.

The marketing challenge is formidable. An estimated 10 million South Africans, mostly poor and black, have no bank accounts. So banks are sending out black staffers who can market banking as accessible, even fun. Peoples Bank is a unit of financial-services giant Nedcor Bank Ltd. that has been repositioned to serve low-income people across the country. It hired Mokela Michael Mokgohloa as an accounts manager to change the habits of neighborhood savings societies around Johannesburg. Such societies pool their savings to buy groceries, pay for funerals, and even build houses. Mokgohloa gets those savings out from under floorboards and into interest-bearing accounts.

Security remains a chief concern for the banks and their new customers. For that reason, nearly all the new banks are pioneering microchip-embedded debit cards. Wary of carrying large amounts of cash in the crime-plagued townships, account holders can make electronic payments for everything from clothing to food with their cards, which automatically keep track of balances. And ultimately, "smart" cards will save the banks money. Costs are lower for automated transactions, and unlike magnetic-strip cards, they bypass a bank's mainframe system.

BARE BONES. Banks are also looking for low-cost ways to handle low-income customers. Dispensing with marble counters and investment consultants, they are focusing instead on the services their new clients need. For instance, Nedcor's Peoples Bank branches offer only passbook-savings accounts and debit cards that allow most transactions to be automated. Checking accounts, credit cards, and mutual funds aren't available.

Unlike E Bank and Peoples Bank, First National Bank hasn't created a separate brand name to serve low-income customers. But it is tailoring its services. Its new Soweto branch is simply a corrugated metal shipping container with a polished wood door, an ATM, and a single staffer to open accounts.

The vast difference between full-service banks that cater to whites and the bare-bones facilities for new black customers has attracted criticism. One bank calls the gap "condescending apartheid stuff." It may be a while before income, not race, determines where South Africans bank. But for now, just introducing the black populace to the joys of compound interest represents progress.

By Drusilla Menaker in Johannesburg

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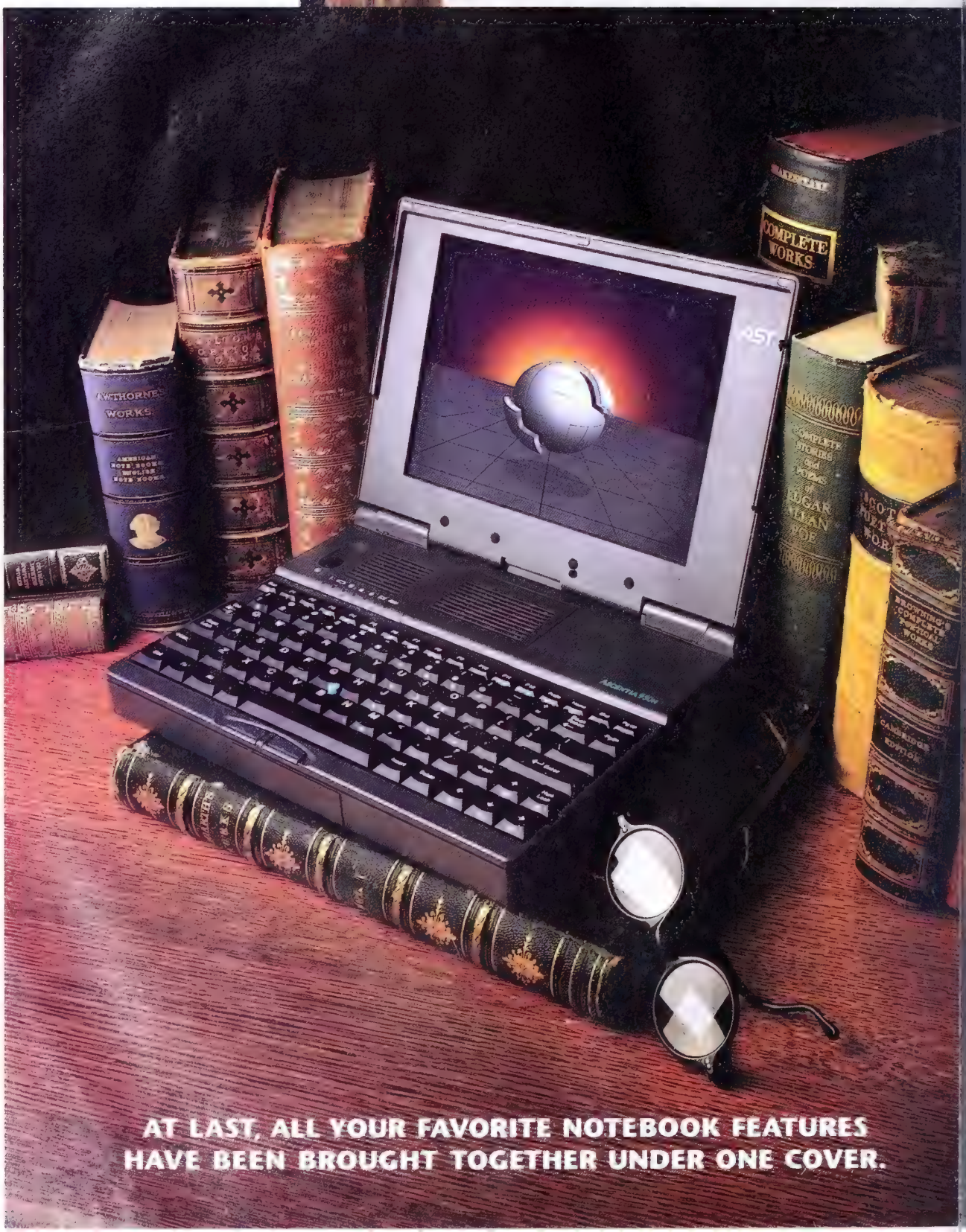

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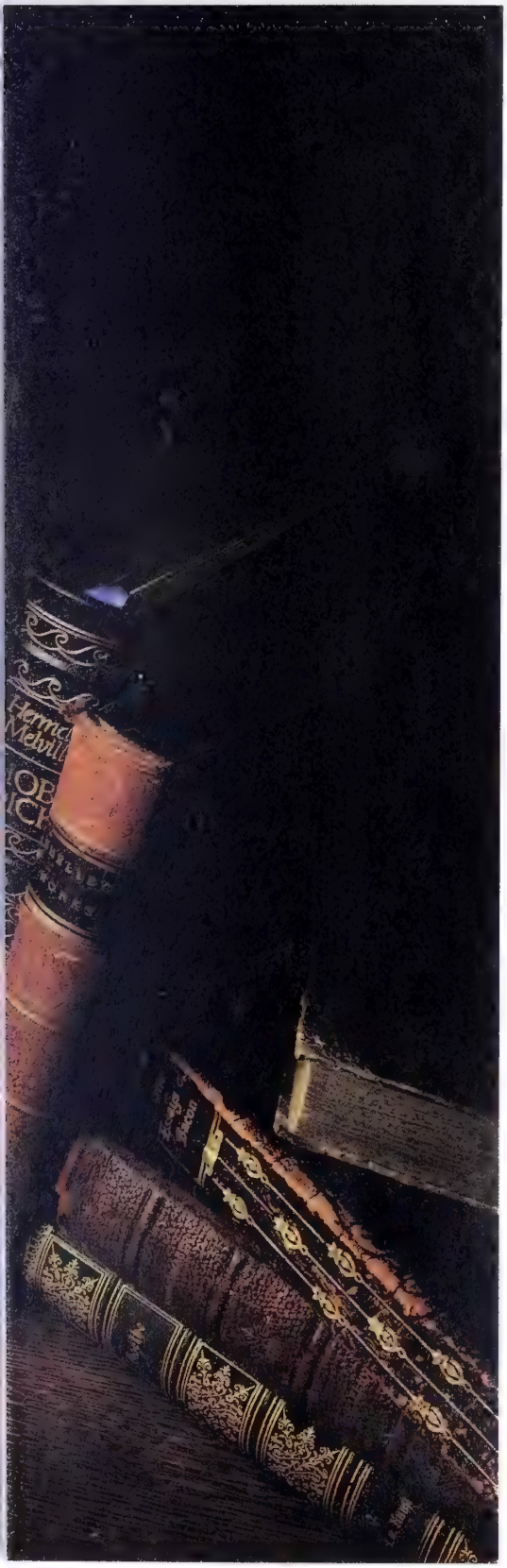

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COMMENTARY

Christopher Farrell

WHY BONDS SHOULD GET MORE RESPECT

Stocks. Stocks. The stock market, it seems, has become today's answer to almost every money problem. Investing in your 401(k) plan? Stocks are the place to be. Setting money aside for medical bills when you get old? Buy and hold stocks for sure-thing, long-run superior performance. Saving for your kids' college tuition? Again, it's stocks. Nobel prizewinner Paul A. Samuelson likes to call the equity solution the "New Messiah."

The stock story appears compelling. With time, investing in equities isn't as risky as common lore holds, while the rewards are immense. According to numbers compiled by Ibbotson Associates, investing in the Standard & Poor's 500 equity index yielded an annual compound return of 10.5%, vs. 5% for long-term government bonds since 1926. Going back too far? In the post World War II era, stocks have outperformed bonds by an average of nearly seven percentage points a year. It's little wonder that bonds are anathema to many investors with long-term horizons.

VIOLENT DROPS. Yet the case for equities is oversold, while that for bonds is undersold. For one thing, the risks involved in the ownership of stocks are often glossed over. Remember when the stock market fell by more than 40% from 1972 to 1975? Says Peter L. Bernstein, an economist and fund adviser to endowments: "Experience tells you that the probability of doing badly is small, but that doesn't tell you how bad it may be if that small probability occurs." Stock market drops tend to be abrupt and violent, quite a problem for anyone retiring during a market storm. Yes, smart long-term investing is built on an equity base. But it makes sense to diversify into other assets—especially bonds.

Bonds are the Rodney Dangerfields of long-term investing. But recent history shows that they deserve better. Over the past 15 years, long-term government bonds have returned 12% and the S&P 500 16%, according to Ibbotson. In the 1990s, bond returns are running neck-and-neck with stocks—11% for bonds vs. 12% for stocks. And there is a sound reason for believing that bonds could draw even with stocks over the next couple of years—the continuing good numbers on inflation.

Indeed, there has been an underlying trend since the late 1940s for equity and bond returns to move closer together, argues Olivier J. Blanchard, economist at the Massachusetts Institute of Technology, in a recent paper. The long-term tendency toward convergence was interrupted by high and rising inflation in the 1970s, since inflation erodes the value of fixed-income securities. But convergence has resumed as inflation pressures eased during the late 1980s and 1990s.

Certainly, disinflation has put down deep roots in the U. S. economy, pushing bond yields sharply lower. "Bonds yields have fallen in half from the early 1980s. They could fall in half again and still be at about the country's 200-year average level," says James W. Paulsen, chief investment strategist at Investors Management Group Ltd. in Des Moines. "Disinflation took bonds from 14% to 7%, and no inflation might take them to 4%." The value of bonds would then soar—sweet news indeed for bond investors.

The inflation trend continues to improve. While the inflation rate typically accelerates by the fifth year of an expansion, this time it continues to fall. Labor costs remain remarkably subdued. The employment-cost index, which includes wages and benefits, rose by a mere 2.7% in the 12 months ending in September, the smallest yearly gain since the index was compiled in 1981.

The fundamentals suggest disinflation is here to stay. Tough international and domestic competition is keeping a lid on prices, as are price-conscious consumers. Strong productivity growth means the economy can grow faster without triggering inflation.

POTENT COMBO. The Federal Reserve Board and the central bankers of most other industrial nations are pursuing constrictive monetary policies. Fiscal policy in the U. S. and elsewhere in the industrial world is tight, as governments struggle to reduce budget deficits. The potent combination of tight fiscal and monetary policies means that "we'll have quite a long period of low interest rates," says Peter Buomberger, chief economist at the Union Bank of Switzerland.

True, the bond market is volatile. In 1994, bonds turned in their worst performance in decades. But this year, bonds have more than made up those losses, putting on one of the best showings in the modern era. And bonds should continue to shine. The 30-year Treasury bond could soon take a run at its record low of 5.89%, reached two years ago. Even that low rate could be a way station rather than a final resting place. Equities may still outperform bonds over time. But for now, it's going to be one heck of a race.

Farrell is an economics editor who monitors the financial markets.

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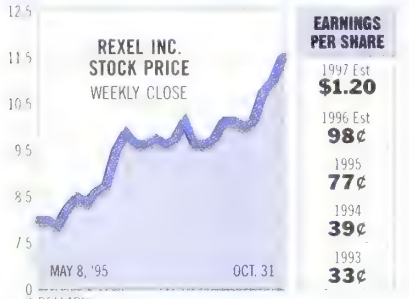
BY GENE G. MARCIAL

SPARKS FLY AT REXEL

Rexel (RXL) is in the humdrum business of distributing electrical components—wire, cable, lighting fixtures, and circuit breakers. But its Big Board-listed stock sure isn't behaving in a humdrum way. Trading at 7 a share in May, the stock has jumped like a live wire lately: It's now at nearly 12 and rising.

Part of the reason is that big investors sniff a buyout play in Rexel Inc., formerly known as Willcox & Gibbs.

WIRED FOR A POSSIBLE BUYER



DATA: BLOOMBERG FINANCIAL MARKETS, DEUTSCHE MORGAN GRENFELL/C.J. LAWRENCE INC.

A French outfit called Rexel S. A., a worldwide supplier of electrical equipment that already owns 44% of Rexel Inc., may be interested in acquiring the rest: French Rexel has been snapping up shares. In May, it bought 326,000 shares at an average price of 7¼ a share—and in late August, an additional 20,000 at more than 9. "It's always a positive sign when beneficial owners buy more shares in the open market," says Charles LaLoggia, editor of *Special Situation Report* in Rochester, N. Y. On Sept. 19, Rexel Inc. announced it would buy back as much as 2 million shares, or about 10% of its stock outstanding.

One source says that top brass at French Rexel has expressed a desire to buy all of U. S. Rexel, whose value one analyst puts at 20 a share. Rexel Inc. declined comment.

The French outfit amassed its big stake in U. S. Rexel in 1992, when Willcox & Gibbs acquired Southern Electric Supply from Rexel S. A. In return, French Rexel obtained a major stake in Rexel Inc. After that, the French company received additional shares of U. S. Rexel for providing the company with financing. After selling off its apparel and parts-distribution businesses in 1994, Willcox became a pure play in electrical supplies, with more than 170 distribution centers in 19 states.

Analyst Harry Mortner of Deutsche Morgan Grenfell/C. J. Lawrence notes that Rexel's free cash flow has been mounting, to an estimated 90¢ a share this year and $1.15 in 1996. The strong cash flow has enabled Rexel, which is expected to post 1995 revenues of $1.1 billion, to cut its debt to just $50 million—after paying off $62 million so far this year.

THREE HAWKS ARE EYEING JACKPOT

Casino stocks haven't been on a winning streak this year—except for a few that are deemed takeover bait. One such is Jackpot Enterprises (J), some investors insist. Jackpot's appeal: It has cash—and little debt. Analysts put the cash hoard at $33 million, or $3.50 a share.

"That's part of what has been catching the hawkish eye of players who want to get into the Nevada scene," says Chuck DiRocco, editor of *Gaming Today*, a weekly Las Vegas trade paper. He thinks Carl Icahn, Ron Perelman, and entertainment mogul Merv Griffin are on the prowl. In October, an unknown group bought a block of 224,000 shares, or 2.4% of Jackpot's shares outstanding, at around 9. The stock is now at 11½.

Perelman has applied for a Nevada gaming license—on top of the gaming license he has obtained for Atlantic City. "His application notes that he wants to come in as a slots operator," says DiRocco, but that doesn't preclude other casino operations.

Much of Jackpot's cash stash comes from operating and servicing slot machines. Jackpot runs 4,700 such devices at retail outlets throughout Nevada. "These slots are a cash cow," says DiRocco. For Griffin, chairman of Griffin Gaming & Entertainment (formerly Resorts International), Jackpot would be a good fit, analysts say, with Merv Griffin's Resorts Casino Hotel in Atlantic City. Griffin also has privately owned hotels in Arizona, California, Florida, and New Mexico. Jackpot owns four small casinos.

Two things could happen as a result of Jackpot's cash flow, says one big investor: Jackpot, now at 11½ a share and likely to earn 84¢ in the year ending June 30, 1996, "will either be acquired at 18 to 20, or it will use its cash to make a major acquisition." Icahn and Perelman declined comment. Griffin's spokesman wasn't available.

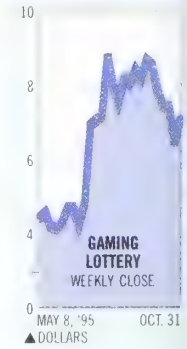
GAMING LOTTERY: JUST THE TICKET?

With lotteries flourishing, investment adviser Richard Geist is betting on an outfit supplying tickets to the operators: Gaming Lottery (GLCCF). "It has the potential of becoming one of the largest gaming-supply companies in North America," says Geist. The stock hasn't been a wallflower: During the summer it doubled, from 4 to 8, but has since cooled a bit, to 7½. Geist thinks it will heat up—and more than double—in a year.

What will propel this big move? The company, formerly Laser Friendly, is believed to be negotiating for two companies in the same business, which Geist figures would kick in $150 million in revenues and an extra 50¢ in earnings for the year ending Jan. 30, 1997.

Without the acquisitions, Geist reckons Gaming Lottery will post revenues of $46 million in fiscal 1996 (ending Jan. 31, 1996) and $87 million in 1997. He sees earnings of 37¢ a share in fiscal 1996 and 62¢ in fiscal 1997.

NOT JUST A LUCKY DRAW



DATA: BLOOMBERG FINANCIAL MARKETS

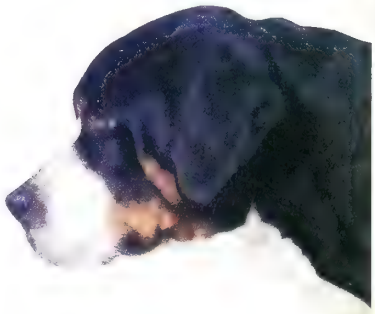
If, however, the two companies are acquired, 1997 will be a more robust year for Gaming Lottery: Geist says revenues will shoot up to $237 million and earnings to $1.12 a share, vs. last year's 14¢ profit.

In the meantime, the company has signed a four-year, $31.7 million contract with Ontario Lottery Corp., Canada's largest, which sells $2 billion worth of tickets a year. Even without the acquisitions, says Geist, the stock is undervalued compared with its peers, which trade at 21 times next year's estimated earnings. Gaming Lottery's p-e: 11. "It's a very strong buy at this level," he says.

Total multi-vendor chaos incompatible protocols inflexible systems

inaccessible information limited scalability

ends here.



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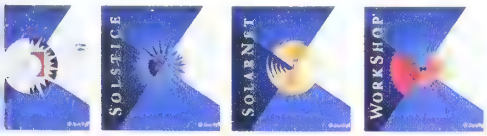

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PROFITS: REALITY PAYS A CALL

At 11%, earnings growth is still robust but far short of last year's numbers

Is the fizz finally going out of Corporate America's earnings party? After 13 ebullient quarters, profit gains are returning to earth. Although the economy's surprisingly strong third quarter pushed profits up again, the rate of improvement is clearly slowing. Earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard rose 11%, to $72 billion, from $65 billion a year ago. That's well down from last quarter's 19%—and anemic compared with the 45% in 1994's third quarter.

Still, the news isn't as bad as it seems. Much of the quarter's profits erosion stemmed from a few large write-offs: IBM and Computer Associates to merger-related charges, Texas Utilit wrote off assets, and AT&T and MCI sw lowed big restructuring charges. gether, those five one-time charges $5 billion from total U.S. corpor earnings; add them back, and pro would have grown 21%.

Winners and Losers in Third-Quarter Profits

THE INDUSTRIES

THE LEADERS	PERCENTAGE CHANGE FROM 1994's THIRD QUARTER
CONSTRUCTION & ENG.	821%
FOREST PRODUCTS	476
PAPER CONTAINERS	363
ALUMINUM	280
PAPER	176
AIRLINES	106
GAS UTILITIES	69
ELECTRICAL PRODUCTS	68
SEMICONDUCTORS	49
FINANCIAL SERVICES	45
CHEMICALS	44
INSURANCE	38
INSTRUMENTS	38
INDUSTRIAL DISTRIBUTION	37
BANKS-WEST & SOUTHWEST	35

THE LAGGARDS	PERCENTAGE CHANGE FROM 1994's THIRD QUARTER
GLASS CONTAINERS	LOSS
TELECOMMUNICATIONS	–74%
PUBLISHING	–58
CARS & TRUCKS	–39
COMPUTERS & PERIPHERALS	–38
APPLIANCES	–37
COMPUTER SOFTWARE	–33
TEXTILES	–29
RETAILING	–27
TRUCKING & SHIPPING	–22
PERSONAL CARE	–19
HOTEL & MOTEL	–8
BUSINESS MACHINES & SVCS.	–7
MACHINE & HAND TOOLS	–7
FOOD DISTRIBUTION	–6

THE COMPANIES

WHO MADE THE MOST	MILLIONS OF DOLLARS
GENERAL ELECTRIC	$1,610
EXXON	1,500
PHILIP MORRIS	1,433
INTEL	931
PROCTER & GAMBLE*	896
CITICORP	877
MERCK	862
COCA-COLA	802
MOBIL	786
DUPONT	769
BANKAMERICA	704
GTE	695
BRISTOL-MYERS SQUIBB	690
GENERAL MOTORS	642
WAL-MART STORES**	634

WHO LOST THE MOST	MILLIONS OF DOLLARS
COMPUTER ASSOC.**	–$637
IBM	–538
TEXAS UTILITIES	–421
BURLINGTON RESOURCES	-300
COLGATE-PALMOLIVE	–250
TIMES MIRROR	–243
MCI COMMUNICATIONS	–240
TRANS WORLD AIRLINES	–223
CYPRUS AMAX MINERALS	–203
BORDERS GROUP**	–187
MUSICLAND STORES	–145
KERR-McGEE	–133
AMERADA HESS	–105
TIME WARNER	–102
FEDERATED DEPT. STORES**	–67

ALL-INDUSTRY AVERAGE: +11% *FISCAL FIRST QUARTER **FISCAL SECOND QUARTER

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

:oreover, many companies chalked 'ar better earnings than anticipat- Thanks to strong housing starts and sales, soaring exports, and a big p in government spending, real s domestic product was surprising- bust. It hit 4.2% for the third quar- up from 1.7% in the second. Just as rtant, the increase didn't stem from ntory buildup, which fueled growth y in the year. Instead, inventory ac- ulation flattened out as final sales usinesses and consumers rose. "The omy got a second wind in the third ter," says Maureen F. Allyn, chief omist at Scudder, Stevens & Clark In all, sales for the 900 companies 10%, to $1.2 trillion.

ut maintaining the momentum will e increasingly tough. Most econo- s expect GDP growth to come in nd 2.7% this year after barreling d at 4.1% in 1994. For 1996, it ld fall between 2.5% and 3%.

D CONSUMER. Although the weak r continues to fuel strong foreign s for companies such as Bristol-My- Squibb Co. and McDonald's Corp., er U.S. growth will likely mean mer profits. Rising real wages could hurt: Hourly wages were up 0.4% last year's third quarter, the est jump in nine years. Another ry: weak consumer spending. "The key is the consumer," says A. Gary ling, who runs an economic consult- firm in Springfield, N.J. "He is pret- well exhausted because of heavy , restructuring, and layoffs." Indeed, consumers often refusing to buy ls unless they are on sale, many panies cannot raise prices. That's dy nicking at profit margins. In the l quarter, margins hit 6.1%, down 6.5% in 1995's first quarter.

mong the Top 25 earners in this ter's Scoreboard, General Electric leapfrogged General Motors Corp. to in the No. 1 spot. Earnings for the pany were up 11%, to $1.61 billion, $1.46 billion last year. Sales were 9%, to $17 billion. The gains came thanks to a big rise in sports advertising at NBC Inc., strong growth, and cost-cutting in GE's plastics and aircraft engines businesses, as well as from surging insurance profits.

Elsewhere, though, performance was mixed. Although strong August sales allowed the auto industry to rack up its biggest volume month in almost a year and a half, heavy rebates dented profitability on those sales. And costly new model launches took a big toll on both Ford Motor Co. and Chrysler Corp. Ford's profits plummeted 68%, to $357 million, because of the expense of introducing the new Taurus and the F-Series pickup truck. Chrysler's earnings fell 46%, to $354 million, as it launched a restyled minivan. Only GM, which benefited from an unusually low 1.2% tax rate, saw earnings rise. GM's profits rose 16%, to $642 million.

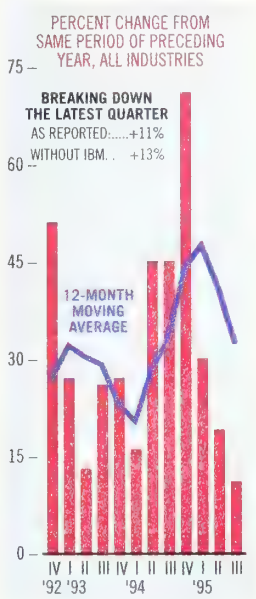
On Wall Street, many firms reported higher earnings on the strength of heavy trading volumes and surging investment banking revenues. Leading the parade was Salomon Inc., which reported income of $268 million, up from a loss of $104 million a year ago.

CUTTING COSTS. Computer and software makers also continued their earnings surge. Microsoft Corp. profits soared 58%, to $499 million, on strong sales of Windows 95. And at Digital Equipment Corp., income hit $48 million after last year's loss of $195 million. Strong sales of its Alpha computer network servers and cost-cutting helped.

The big exceptions were IBM and Apple Computer Inc. Big Blue posted a net loss of $538 million, after a $1.8 billion charge for its acquisition of software maker Lotus Development Corp. But despite the loss, growth in services and software

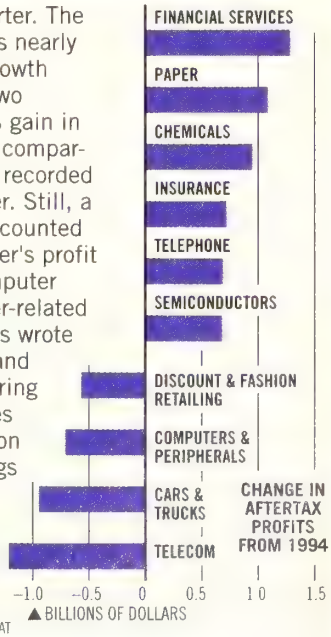
A Spotlight on Third-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

What a confusing quarter. The 10% jump in revenues nearly matched the strong growth seen in the previous two quarters, but the 11% gain in profits looked anemic compared with the 45% hike recorded in 1994's third quarter. Still, a few large write-offs accounted for much of this quarter's profit erosion: IBM and Computer Associates took merger-related charges, Texas Utilities wrote off assets, and AT&T and MCI had big restructuring charges. Those charges alone slashed $5 billion from corporate earnings for the quarter; add them back in, and earnings would have grown 21%.



DATA: STANDARD & POOR'S COMPUSTAT

CHARTS BY ERIC HOFFMANN BW

Wall Street turned in a strong performance, with Salomon leading the parade

continues to fuel IBM's recovery. Apple saw income fall 48%, to $60 million, as it struggled with snafus and was forced to cut prices to keep market share.

In telecommunications, too, the third quarter proved difficult. AT&T reported third-quarter income of just $262 million, a 75% slide from last year. The drop reflected a one-time charge for restructuring at its troubled computer operation. Long-distance rival MCI also took a pretax restructuring charge of $831 million to streamline operations in the face of stiff competition. The charges resulted in a net loss of $240 million.

Retailers also sang the blues, and with them, apparel makers. "Consumers did not respond to fall fashions or back-to-school sales with any vengeance," says retail consultant Alan Millstein. Wary shoppers took a toll on AnnTaylor, VF, and Fruit of the Loom. Finicky consumers also shunned specialty chains and off-price retailers such as Toys 'R' Us Inc. and Woolworth Corp., although Wal-Mart Stores Inc., which is still expanding rapidly, chalked up profits of $634 million, a 12% gain. With high levels of debt and the threat of economic slowdown slowing many households, quite a few companies could use a dose of Wal-Mart formula—low prices and great operating efficiencies—to propel corporate profits forward next quarter.

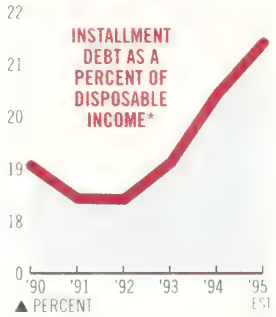
By Sunita Wadekar Bhargava in New York

A CAPITAL-GAINS CUT MIGHT KEEP THE ECONOMY COOKING

Over the past several years, Corporate America's heavy spending on computers, machine tools, and other labor-savers has provided much of the fuel for economic expansion. But with growth in capital spending expected to fall off next year, concerns are growing about whether consumers will be able to pick up enough spending slack to keep the U.S. economy—and corporate profits—humming.

Those worries intensified late in October, after Sacramento's The Money Store Inc.—which provides mortgage loans to borrowers with poor credit histories—reported a sharp rise in delinquencies on loans. Already, consumer installment credit, which doesn't include auto leasing or home-equity loans, has shot up 30% in the past two years. Add in automobile leases, and consumer debt now tops 20% of disposable income, a record (chart). "The consumer is pretty stretched, and it wouldn't take much more to convince them to slow their spending," says Douglas Lee, chief economist at HSBC Washington Analysis.

CONSUMER DEBT HITS AN ALL-TIME HIGH



*Includes auto-lease payments

DATA: HSBC WASHINGTON ANALYSIS

Rising debt appears to be taking a toll. After growing 3.4% in 1995's second quarter, consumer spending increased just 2.9% last quarter. Economist Daniel Bachman of WEFA Group in Bala Cynwyd, Pa., believes it will grow 2.6% in the fourth quarter—well down from the red-hot 5.1% seen at the end of 1994—before leveling out at just 2.3% for full-year 1996. But some economists believe there's a wild card in the deck that could give a short-term kick to consumer spending: a cut in the capital-gains tax rate.

The White House and congressional Republicans remain bitterly divided over budget priorities. But the Clinton Administration appears willing to accept some cut in the effective 28% effective top rate on capital gains, although perhaps not to the 20% level the GOP has proposed. What's more, the Administration may try to ensure that most of the benefits go to middle-class taxpayers. Any change probably won't take effect until December or January, 1996.

But that could give the economy some juice just when it needs it. Economist David Hale of Kemper Financial Services Inc. argues that a capital-gains cut could prompt shareholders to cash in some of the paper profits earned in the market's 25% runup since January—a rally that has boosted household wealth by more than $1 trillion. After a similar capital-gains tax cut in 1982, tax receipts from the sale of stocks, bonds and other assets soared to $763 billion from 1983 to 1986—double the revenues generated during the previous five years. "It would provide a positive shock to the economy," says Hale. And Norwest Corp. economist Sung Won Sohn adds that a cut would be particularly good for makers and merchants of such big-ticket items as autos, furniture, and durable goods.

CHRISTMAS GOOSE? The conventional wisdom holds that most of the windfall from a lower gains rate would be enjoyed by the wealthiest Americans, who hold a disproportionate share of stocks. But the boom in mutual funds and contributory pension plans means that the middle class holds far more equities than in the past. Today, more than a quarter of all U.S. households own shares in mutual funds, up from just 6% in 1980.

A cut in capital-gains taxes could also help push the market higher. So even if middle-class families don't cash out, economists believe that many will respond to an increase in the value of their assets by hiking spending. Between the direct effect of realized capital gains and the psychological boost from rising assets, consumers may be more cheerful than most pundits project. And that could be good news for an economy in need of a jump start early next year.

By Dean Foust in Washington

Third Quarter 1995

CORPORATE SCOREBOARD

ossary

ES: Includes all sales and er operating revenues. For ks, includes all operating nues.

FITS: Net income before aordinary items. For banks, profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Oct. 20, 1995, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

MPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	3RD QUARTER 1995 %	3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	12 MONTHS' EARNINGS PER SHARE
L-INDUSTRY COMPOSITE	1186308.0	10	3500062.0	12	71998.2	11	218837.8	22	6.1	6.1	17.0	17	2.64
AEROSPACE & DEFENSE													
DUSTRY COMPOSITE	22467.6	–3	70128.1	1	1093.5	18	2127.3	–24	4.9	4.0	10.3	24	2.82
EING	4381.0	–13	14976.0	–11	225.0	22	175.0	–75	5.1	3.7	3.5	68	0.97
NCORP (1)	431.4	15	1321.4	6	8.0	25	31.3	80	1.9	1.7	2.8	NM	0.01
NERAL DYNAMICS	718.0	1	2174.0	–7	62.0	15	183.0	11	8.6	7.6	17.1	15	3.81
CKHEED MARTIN	5550.0	–3	16801.0	3	287.0	13	371.0	–53	5.2	4.5	11.1	22	3.21
DONNELL DOUGLAS	3346.0	–3	10601.0	10	192.0	19	520.0	20	5.7	4.7	17.1	14	5.95
RTHROP GRUMMAN	1630.0	–15	5006.0	4	61.0	56	194.0	24	3.7	2.0	5.3	40	1.48
HR (5)	182.3	–19	612.8	–10	1.3	150	7.1	NM	0.7	0.2	4.8	33	0.47
NDSTRAND	355.0	5	1078.0	8	34.0	43	43.0	–29	9.6	7.0	16.8	26	2.44
IOKOL (6)	222.9	–6	723.0	–8	13.2	–8	39.9	–13	5.9	6.0	12.7	13	2.73
ITED TECHNOLOGIES	5651.0**	9	16835.0	8	210.0	12	563.0	34	3.7	3.6	17.9	16	5.54
AUTOMOTIVE													
DUSTRY COMPOSITE	96601.6	6	314095.8	9	1994.6	–32	11701.3	–4	2.1	3.2	22.5	8	4.86
CARS & TRUCKS													
OUP COMPOSITE	83139.9	5	272493.1	9	1460.7	–39	9922.2	–6	1.8	3.0	22.8	7	5.58
RYSLER	11542.0	2	36812.0	0	354.0	–46	1081.0	–58	3.1	5.8	21.0	9	6.02
RD MOTOR	31418.0	3	102590.0	8	357.0	–68	3479.0	–7	1.1	3.7	18.9	7	4.61
NERAL MOTORS	37462.9**	9	124894.0	11	642.4	16	5066.5	24	1.7	1.6	28.4	6	7.06
VISTAR INTERNATIONAL (2)	1505.0	21	4533.0	20	39.0	95	108.0	83	2.6	1.6	18.2	6	1.66
CCAR	1212.1	4	3664.2	10	68.3	28	187.7	27	5.6	4.6	19.3	7	6.30
PARTS & EQUIPMENT													
OUP COMPOSITE	9776.7	13	30586.8	18	349.3	–1	1235.5	14	3.6	4.1	21.7	11	2.74
VIN INDUSTRIES	485.0	7	1542.1	13	2.7	–73	10.5	–64	0.6	2.2	–9.1	NM	–1.60
RG-WARNER AUTOMOTIVE	298.5	5	982.3	11	13.2	10	51.8	16	4.4	4.2	12.9	9	3.05
MMINS ENGINE	1219.0	6	3914.0	13	46.0	–26	182.0	0	3.8	5.4	22.1	6	6.15
NA	1727.1**	7	5620.3	14	60.9	15	209.2	24	3.5	3.3	25.7	10	2.67
TROIT DIESEL	493.6	18	1576.7	27	10.9	25	35.6	37	2.2	2.1	14.7	10	1.85
NALDSON (5)	184.2	14	539.8	20	9.9	17	29.0	19	5.4	5.2	18.0	17	1.45
GLE-PICHER INDUSTRIES (1)	210.7	13	633.7	13	23.4	99	53.2	42	11.1	6.3	NM	0	5.85
TON	1672.0	9	5161.0	16	91.0	8	309.0	27	5.4	5.5	21.4	10	5.12
HLIN (4)	724.1	16	2117.3	22	45.9	27	122.6	26	6.3	5.8	17.7	13	2.60
DERAL-MOGUL	480.2	8	1510.8	9	11.0	–32	39.4	–24	2.3	3.6	8.0	16	1.21
AR SEATING	1080.6	55	3266.7	48	11.1	76	57.0	68	1.0	0.9	33.6	19	1.65
IDINE MFG. (9)	254.3	15	735.8	18	16.7	0	52.1	22	6.6	7.6	21.0	12	2.27
IITH (A. O.)	354.4	7	1147.2	12	7.5	–26	45.8	5	2.1	3.0	17.0	8	2.84
ANDARD MOTOR PRODUCTS	178.3	6	522.0	4	3.1	–60	15.3	–18	1.8	4.6	9.8	11	1.55
ANDARD PRODUCTS (6)	238.8	8	770.0	11	–9.8	NM	2.1	–92	NM	1.3	2.8	35	0.45
ABASH NATIONAL	176.1	19	547.2	36	5.8	–9	20.8	20	3.3	4.3	16.3	19	1.45
TIRE & RUBBER													
OUP COMPOSITE	3685.0	5	11015.8	9	184.5	–1	543.5	5	5.0	5.3	19.1	11	3.05
OPER TIRE & RUBBER	375.0	–2	1111.7	7	27.0	–24	78.9	–12	7.2	9.2	16.8	17	1.41
ODYEAR TIRE & RUBBER	3310.0	6	9904.1	9	157.5	4	464.6	8	4.8	4.9	19.6	10	3.96

Third quarter ended Aug. 31. (2) Third quarter ended July 31. (3) Fourth quarter and most recent six months ended Sept. 30. (4) Fourth quarter and most recent six months ended Aug. 31. (5) Fourth quarter and most ent six months ended July 31. (6) First quarter and most recent six months ended Sept. 30. (7) First quarter and most recent six months ended Aug. 31. (8) First quarter and most recent six months ended July 31. (9) ond quarter and most recent six months ended Sept. 30. (10) Second quarter and most recent six months ended Aug. 31. (11) Second quarter and most recent six months ended July 31. *Sales include excise taxes. **Sales ude other income. ***Sales include excise taxes and other income. †Revenues from major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent al year; they include all common-stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful. DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES.

CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	MONTHS EARNINGS PER SHARE
3 BANKS													
INDUSTRY COMPOSITE	63332.5	16	184894.6	15	8506.8	13	23460.3	7	13.4	13.8	15.6	12	4.
(A) BANKS - EAST													
GROUP COMPOSITE	29992.5	13	88177.6	9	3735.5	6	10077.0	1	12.5	13.3	15.0	12	4.
BANK OF BOSTON	1361.7**	6	4027.7	23	139.9	13	398.6	27	10.3	9.6	16.4	11	4.
BANK OF NEW YORK	1234.0	15	3750.0	27	234.0	21	673.0	23	19.0	18.1	18.6	10	4.
BANKERS TRUST NEW YORK	1882.0	21	5448.0	14	155.0	-8	89.0	-83	8.2	10.8	3.8	35	1.
BAYBANKS	264.3**	17	755.0	19	34.7	20	99.6	28	13.1	12.9	15.5	12	6.
CHASE MANHATTAN	2791.0**	10	8364.0	-2	283.0	-7	825.0	-15	10.1	12.1	13.0	12	5.
CHEMICAL BANKING	3810.0**	16	11074.0	18	477.0	9	1315.0	18	12.5	13.3	13.8	11	5.
CITICORP	7063.0	11	20898.0	-6	877.0	-2	2559.0	8	12.4	14.1	20.8	9	7.
FIRST FIDELITY BANCORPORATION	687.4**	1	2063.8	11	125.6	9	353.8	5	18.3	16.6	16.5	13	5.
FLEET FINANCIAL GROUP	1284.5**	14	3747.0	14	177.4	8	513.7	15	13.8	14.5	17.5	10	4.
INTEGRA FINANCIAL	316.7**	16	919.0	12	39.8	-4	120.0	-8	12.6	15.1	15.1	13	4.
MBNA	688.7**	40	1847.2	41	97.3	32	242.9	32	14.1	15.0	32.6	18	2.
MELLON BANK	814.0**	5	2392.0	2	175.0	124	517.0	32	21.5	10.1	13.7	15	3.
MERIDIAN BANCORP	342.0**	9	1023.0	15	54.4	48	121.5	3	15.9	11.6	13.4	16	2.
MIDLANTIC	286.4	13	836.9	15	61.1	-20	170.8	-15	21.3	30.2	17.4	12	4.
MORGAN (J. P.)	3495.0	15	10199.0	15	360.0	10	930.0	-9	10.3	10.7	11.7	14	5.
PNC BANK	1326.8**	7	3895.6	10	149.0	-21	411.7	-29	11.2	15.2	9.9	15	1.
REPUBLIC NEW YORK	709.8**	9	2124.3	15	95.2	4	193.8	-23	13.4	14.0	12.0	13	4.
SHAWMUT NATIONAL	688.6	21	2052.8	25	91.4	7	236.7	64	13.3	15.0	13.4	14	2.
STATE STREET BOSTON	625.1**	26	1812.4	28	64.6	17	181.6	11	10.3	11.1	15.7	15	2.
UJB FINANCIAL	321.6**	11	948.2	16	44.0	14	124.4	30	13.7	13.3	13.8	12	2.
(B) BANKS - MIDWEST													
GROUP COMPOSITE	14276.3	18	41500.9	20	2052.2	13	5762.6	5	14.4	15.0	15.8	12	3.
BANC ONE	2258.8**	9	6641.7	11	331.0	17	941.0	0	14.7	13.7	13.0	15	2.
BOATMEN'S BANCSHARES	756.3**	14	2227.3	15	110.6	8	305.1	1	14.6	15.3	14.3	12	3.
COMERICA	726.0	21	2134.3	26	105.3	5	306.9	6	14.5	16.7	16.2	11	3.
FIFTH THIRD BANCORP	383.1**	28	1083.0	25	75.2	20	209.8	17	19.6	20.9	17.9	15	4.
FIRST BANK SYSTEM	711.2	7	2123.8	13	145.7	22	417.4	20	20.5	18.0	14.3	13	4.
FIRST CHICAGO	1530.6	25	4458.9	33	207.2	35	589.7	14	13.5	12.5	17.4	9	7.
FIRST OF AMERICA BANK	534.2**	9	1604.4	16	66.7	18	170.7	2	12.5	11.6	12.9	13	3.
FIRSTAR	444.9**	18	1291.1	18	67.1	11	157.1	-8	15.1	16.1	14.0	13	2.
HUNTINGTON BANCSHARES	439.1**	24	1260.5	18	65.9	18	179.0	-6	15.0	15.7	14.7	14	1.
KEYCORP	1487.6**	10	4398.9	14	209.6	-9	582.5	-12	14.1	17.0	16.8	11	3.
MERCANTILE BANCORPORATION	357.5**	17	1035.9	16	56.7	18	158.8	13	15.9	15.8	15.3	11	3.
NATIONAL CITY	894.5	23	2541.1	21	120.0	11	343.6	8	13.4	15.0	17.3	11	2.
NBD BANCORP	1046.4	18	3071.8	25	149.6	1	433.9	7	14.3	16.7	16.0	11	3.
NORTHERN TRUST	459.2**	23	1321.6	22	58.1	21	160.5	13	12.7	12.8	15.7	14	3.
NORWEST	1965.6**	30	5490.6	25	245.2	21	696.3	17	12.5	13.4	20.6	12	2.
OLD KENT FINANCIAL	281.4**	19	816.2	22	38.3	4	110.4	3	13.6	15.7	14.8	12	3.
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	9822.3	24	28153.0	24	1305.1	15	3698.2	11	13.3	14.3	15.9	11	4.
BANPONCE	324.9	25	910.9	23	38.3	21	106.1	15	11.8	12.2	13.4	10	3.
CRESTAR FINANCIAL	300.0	10	888.1	12	48.4	11	141.4	12	16.1	16.0	15.0	12	4.
FIRST TENNESSEE NATIONAL	337.9**	19	961.0	10	43.8	17	119.2	4	13.0	13.2	18.9	12	4.
FIRST UNION	2044.1**	27	5678.9	24	255.0	5	741.1	7	12.5	15.0	16.7	10	5.
NATIONSBANK	4174.0**	25	12091.0	26	530.0	23	1440.0	12	12.7	12.9	16.0	10	6.
REGIONS FINANCIAL	302.8**	27	874.9	29	44.0	18	128.1	18	14.5	15.8	15.3	11	3.
SOUTHTRUST	439.1**	28	1247.5	32	50.5	14	145.4	14	11.5	13.0	15.2	11	2.
SUNTRUST BANKS	942.5**	14	2778.6	16	143.7	9	420.6	8	15.2	16.0	13.8	14	4.
WACHOVIA	956.9**	26	2722.2	26	151.3	10	456.3	15	15.8	18.2	16.9	14	3.
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	9241.5	17	27063.0	20	1414.0	35	3922.5	28	15.3	13.3	16.6	11	6.
BANCORP HAWAII	256.8	9	756.3	10	32.9	3	89.7	-11	12.8	13.6	10.5	13	2.
BANKAMERICA	5201.0**	23	15157.0	26	704.0	29	1960.0	24	13.5	12.9	13.7	10	6.
FIRST INTERSTATE BANCORP	1203.1**	10	3612.4	16	237.8	83	669.7	28	19.8	11.9	24.1	13	11.
FIRST SECURITY	304.7**	19	888.2	26	39.3	7	111.2	6	12.9	14.4	14.8	12	2.
U. S. BANCORP	521.0	9	1543.9	10	81.2	29	217.7	154	15.6	13.1	15.6	11	2.
UNION BANK	396.9**	23	1141.2	24	57.8	156	148.1	296	14.6	7.0	15.0	12	4.
WELLS FARGO	1358.0**	8	3964.0	8	261.0	20	726.0	16	19.2	17.2	26.7	12	18.
4 CHEMICALS													
INDUSTRY COMPOSITE	34913.7	9	109700.0	16	3100.1	44	10060.3	59	8.9	6.7	24.8	12	3.
AIR PRODUCTS & CHEMICALS (3	979.2	5	2944.5	11	92.8	17	281.5	78	9.5	8.5	15.6	16	3.
ALBEMARLE	315.2	12	948.2	19	22.2	14	49.3	8	7.1	6.9	9.4	23	0.
ARCADIAN	269.5	3	960.6	18	19.8	456	55.1	227	7.3	1.4	24.7	18	1.
ARCO CHEMICAL	999.0	12	3289.0	33	117.0	44	393.0	103	11.7	9.1	24.9	10	4.
BETZ LABORATORIES	195.8	9	562.6	6	20.5	6	59.2	4	10.5	10.7	21.2	16	2.
CYTEC INDUSTRIES	320.3	16	964.0	19	22.4	45	67.1	81	7.0	5.6	54.1	11	5.
DEXTER	268.5	10	818.3	13	9.4	12	31.8	11	3.5	3.5	11.1	14	1.
DOW CHEMICAL	4884.0**	16	15606.0	29	571.0	141	1469.0	152	11.7	5.6	21.0	12	6.
DUPONT	10200.0***	4	31778.0	9	769.0	19	2666.0	28	7.5	6.6	26.2	12	5.

IRPORATE SCOREBOARD

MPANY	SALES 3RD QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	12 MONTHS' EARNINGS PER SHARE
TMAN CHEMICAL	1266.0	12	3819.0	21	148.0	59	438.0	89	11.7	8.2	38.1	9	6.53
YL	241.7	–1	700.5	–23	17.0	–25	51.5	–30	7.0	9.2	18.8	18	0.64
RO	310.8	5	987.8	12	9.8	–16	37.6	8	3.2	3.9	13.9	14	1.65
LER (H. B.) (1)	312.6	9	930.7	16	8.8	–2	24.9	12	2.8	3.1	11.7	13	2.38
N	310.2	-1	1004.0	17	14.4	–28	27.8	–30	4.6	6.4	21.3	15	1.71
RGIA GULF	270.9	9	860.7	32	44.5	40	155.4	141	16.4	12.8	NM	7	5.25
DRICH (B. F.)	606.0	8	1800.6	12	32.9	41	94.8	103	5.4	4.2	12.5	16	4.08
AT LAKES CHEMICAL	586.2	12	1796.1	20	74.2	3	221.0	7	12.7	13.8	22.6	15	4.42
INA (M. A.)	464.1	3	1440.1	14	13.3	18	44.7	66	2.9	2.5	11.1	14	1.76
CULES	570.2	–15	1877.6	–9	80.3	22	248.8	36	14.1	9.8	28.9	19	2.95
GLOBAL (6)	484.9	15	1536.3	21	30.2	39	107.6	143	6.2	5.2	17.8	16	4.56
L FLAVORS & FRAGRANCES	360.1	5	1128.0	12	63.3	8	209.0	14	17.6	17.2	22.5	21	2.27
TITE	195.8	7	593.7	14	19.4	–14	68.1	11	9.9	12.3	19.2	18	2.53
RIZOL	413.7	4	1268.9	5	27.9	–42	138.3	–1	6.8	12.0	20.0	12	2.70
NDELL PETROCHEMICAL	1249.0	20	3793.0	37	100.0	52	362.0	202	8.0	6.4	160.9	4	5.80
NSANTO	2048.0	7	6848.0	11	140.0	21	659.0	16	6.8	6.1	20.3	17	6.22
RTON INTERNATIONAL (6)	809.6	9	2559.1	12	67.3	9	226.8	18	8.3	8.3	18.0	15	2.00
CO CHEMICAL	335.5	–2	977.7	–5	40.5	440	115.4	55	12.1	2.2	22.6	17	1.86
NDUSTRIES	255.3	13	789.6	19	17.4	NM	51.5	NM	6.8	NM	NM	14	1.05
	796.4	19	2366.2	20	31.1	41	113.1	74	3.9	3.3	16.2	12	5.48
XAIR	795.0	8	2339.0	18	64.0	26	196.0	32	8.1	7.0	24.0	15	1.76
M & HAAS	942.0**	8	2969.0	11	59.0	7	225.0	4	6.3	6.3	16.3	14	3.92
ULMAN (A.) (4)	242.0	16	776.2	34	12.0	–12	40.4	16	5.0	6.6	13.2	14	1.43
RLING CHEMICALS (3)	187.1	–11	789.5	38	15.0	–2	130.8	478	8.0	7.2	68.9	3	2.75
RA INDUSTRIES	492.3**	71	1939.3	42	29.2	NM	147.3	248	5.9	0.2	28.9	6	1.99
ON CARBIDE	1495.0	19	4489.0	26	277.0	189	735.0	217	18.5	7.7	52.3	6	6.12
CO	441.9	–3	1449.1	4	19.4	–14	118.7	70	4.4	5.0	13.8	13	2.56
CONGLOMERATES													
USTRY COMPOSITE	**32404.0**	**16**	**95312.2**	**17**	**2401.9**	**14**	**6898.8**	**19**	**7.4**	**7.6**	**22.0**	**16**	**3.38**
D STANDARD (3)	2668.5**	27	7710.2	27	65.8	34	173.8	348	2.5	2.3	15.6	24	3.62
EDSIGNAL	3499.0	13	10548.0	14	217.0	15	642.0	16	6.2	6.1	25.3	15	2.99
ERAL ELECTRIC	17341.0**	19	50276.0	19	1610.0	11	4708.0	11	9.3	10.0	22.6	17	3.78
COURT GENERAL (2)	813.3**	10	2251.0	7	96.0	24	122.3	27	11.8	10.4	18.3	20	2.12
L (5)	253.5	20	663.6	19	45.9	21	105.9	21	18.1	18.0	18.6	23	1.04
WAY	239.1	18	694.9	22	9.2	11	28.6	–20	3.8	4.1	11.3	21	2.72
MARK INTERNATIONAL	848.6	4	2588.2	7	46.8	14	160.4	18	5.5	5.0	26.7	13	3.86
EDYNE	593.0	3	1925.2	10	34.5	79	131.4	NM	5.8	3.3	41.2	10	2.65
TRON	2425.0	2	7314.0	0	122.0	10	352.0	10	5.0	4.7	15.0	13	5.31
	2401.4	11	7709.4	16	93.6	14	331.4	43	3.9	3.8	20.4	11	6.46
HIT	494.5	113	1475.6	133	13.7	88	43.5	279	2.8	3.1	21.6	18	0.40
TMAN	827.1	12	2156.2	10	47.5	64	99.5	33	5.7	3.9	23.4	18	1.24
CONSUMER PRODUCTS													
USTRY COMPOSITE	**77635.3**	**6**	**223607.5**	**8**	**5484.0**	**1**	**15109.6**	**6**	**7.1**	**7.4**	**23.7**	**20**	**2.82**
APPAREL													
OUP COMPOSITE	**7851.1**	**9**	**21249.7**	**11**	**397.1**	**–4**	**832.4**	**1**	**5.1**	**5.7**	**12.0**	**20**	**1.80**
WN GROUP (11)	342.9	–3	1032.5	–1	–8.4	NM	–9.0	NM	NM	2.1	2.6	45	0.33
IT OF THE LOOM	641.3	0	1894.3	11	24.5	–39	80.7	–22	3.8	6.3	3.1	38	0.48
ES APPAREL GROUP	243.5**	26	591.8	21	24.0	16	51.4	14	9.8	10.7	22.1	14	2.31
LWOOD (8)	340.6	13	1028.4	19	5.6	–47	–5.1	NM	1.7	3.6	1.9	65	0.29
CLAIBORNE	582.6	–6	1584.5	–4	48.2	12	93.3	8	8.3	7.0	9.4	20	1.20
E (7)	1614.6	38	4151.4	36	164.8	55	373.5	57	10.2	9.1	21.8	18	6.27
ORD INDUSTRIES (7)	189.3	14	488.8	6	0.3	–94	–0.1	NM	0.1	2.9	4.6	23	0.69
LIPS-VAN HEUSEN (11)	349.5	23	985.9	19	3.9	–32	10.5	–32	1.1	2.0	10.4	10	1.05
BOK INTERNATIONAL	1006.0	7	2730.2	6	76.2	–10	163.5	–19	7.6	9.0	21.8	13	2.67
SELL	333.8	5	850.9	7	12.9	–47	37.7	–25	3.9	7.6	10.6	15	1.67
BERLAND	212.6	–4	479.3	5	7.1	–57	–12.4	NM	3.3	7.4	–6.8	NM	–0.85
TEX	207.9**	0	413.0	4	9.2	25	1.2	NM	4.4	3.5	6.7	15	0.33
	1332.1	–3	3791.6	3	69.7	–21	192.9	–3	5.2	6.4	14.6	12	4.13
STPOINT STEVENS	454.4	3	1227.1	5	–40.9	NM	–145.8	NM	NM	NM	NM	NM	–5.89
APPLIANCES & HOME FURNISHINGS													
OUP COMPOSITE	**9912.4**	**13**	**29879.8**	**16**	**233.0**	**–37**	**645.8**	**–33**	**2.4**	**4.2**	**9.6**	**25**	**1.21**
STRONG WORLD INDUSTRIES	744.8	4	2175.8	6	19.4	–69	106.5	–35	2.6	8.6	17.9	15	3.72
T BUY (10)	1437.9	54	4659.7	57	5.7	–25	38.5	16	0.4	0.8	14.3	18	1.30
CUIT CITY STORES (10)	1600.8	31	4902.7	33	41.2	14	149.6	21	2.6	3.0	18.8	19	1.82
IG-MEYERS (10)	324.9**	21	942.9	21	11.3	–24	44.7	–6	3.5	5.5	12.4	16	1.28
BALL INTERNATIONAL (6)	218.9	5	675.3	8	8.4	0	29.8	15	3.8	4.0	11.1	14	1.97
-BOY CHAIR (8)	195.8	12	641.1	5	3.2	–26	23.1	–6	1.6	2.4	11.0	15	1.95
ITZ FURNITURE (9)	251.3	–6	738.2	–1	–3.1	NM	–13.7	NM	NM	1.3	NM	NM	–0.29
TAG	726.4	–14	2350.0	–6	30.0	–51	–31.6	NM	4.1	7.2	–2.0	NM	–0.13
1 IMPORTS (10)	199.5	8	575.6	9	–0.1	NM	16.6	311	NM	4.7	7.3	24	0.42
TV & APPLIANCES (10)	183.2	14	606.4	22	2.3	–48	8.9	–36	1.2	2.7	8.8	8	0.75
DY	1339.9**	20	3751.6	20	44.9	–3	121.8	–1	3.4	4.1	12.7	18	3.12

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1995 $ Mil.	CHANGE FROM 1994 %	9 MONTHS 1995 $ Mil.	CHANGE FROM 1994 %	3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ Mil.	CHANGE FROM 1994 %	3RD QUARTER 1995 %	3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	MONTHS EARNINGS % SALES
TORO (5)	202.6	5	727.1	10	4.0	0	28.4	18	2.0	2.1	19.8	10	2.1
WHIRLPOOL	2154.0	3	6254.0	4	64.0	–35	191.0	–23	3.0	4.7	5.3	39	1.5
ZENITH ELECTRONICS	332.5	–21	879.2	–13	1.8	–81	–67.8	NM	0.5	2.2	–42.2	NM	–1.3
(C) BEVERAGES													
GROUP COMPOSITE	**18988.8**	**9**	**52415.7**	**9**	**1853.9**	**12**	**4889.1**	**13**	**9.8**	**9.5**	**30.9**	**25**	**2.**
ANHEUSER-BUSCH	3436.2	4	9484.8	4	339.7	3	884.9	3	9.9	10.0	22.7	16	4.
BROWN-FORMAN (8)	352.1	14	1069.9	9	32.2	14	103.6	7	9.1	9.1	28.6	18	2.
COCA-COLA	4895.0	10	13685.0	13	802.0	13	2338.0	18	16.4	15.9	54.8	32	2.
COCA-COLA BOTTLING CONSOLIDATED	203.6	8	582.4	5	4.6	–5	14.7	12	2.3	2.6	39.9	20	1.
COCA-COLA ENTERPRISES	1841.0	15	5130.0	13	36.0	38	85.0	47	2.0	1.6	6.9	37	0.
COORS (ADOLPH)	567.9	2	1294.0	–1	22.6	31	37.9	21	4.0	3.1	7.0	15	1.
PEPSICO	7693.1	9	21169.7	9	616.8	14	1425.1	12	8.0	7.7	25.9	22	2.
(D) PERSONAL CARE													
GROUP COMPOSITE	**16059.1**	**10**	**46276.8**	**11**	**1061.4**	**–19**	**3230.3**	**2**	**6.6**	**9.0**	**25.5**	**23**	**2.**
ALBERTO-CULVER (3)	364.9	16	1046.7	12	15.6	12	41.5	17	4.3	4.4	14.2	16	1.
AVON PRODUCTS	1067.8	6	3108.0	7	55.2	8	170.0	10	5.2	5.1	145.4	18	4.
CLOROX (6)	518.5	9	1611.8	8	58.8	11	172.3	10	11.3	11.2	21.9	19	3.
COLGATE-PALMOLIVE	2134.4	11	6205.4	11	250.2	NM	49.5	89	NM	7.8	8.9	62	1.
ECOLAB	348.5	9	991.5	11	29.9	5	74.1	8	8.6	8.9	21.5	21	1.
GILLETTE	1669.8	11	4806.8	13	202.2	17	591.4	19	12.1	11.5	35.3	27	1.
HELENE CURTIS INDUSTRIES (10)	352.3	0	988.1	3	7.2	9	15.2	5	2.0	1.9	8.4	15	1.
NCH (8)	192.2	8	563.9	7	8.2	5	25.3	14	4.3	4.4	11.3	13	4.
PROCTER & GAMBLE (6)	9027.0	10	25833.0	12	896.0	13	1999.0	19	9.9	9.7	25.4	21	3.
STANHOME	205.7	6	600.1	8	11.9	–10	29.5	–10	5.8	6.8	15.2	15	2.
TAMBRANDS	178.1	2	521.4	9	26.7	7	62.6	–7	15.0	14.3	98.9	20	2.
(E) TOBACCO													
GROUP COMPOSITE	**24824.0**	**–1**	**73785.5**	**2**	**1938.4**	**15**	**5512.1**	**11**	**7.8**	**6.7**	**25.1**	**14**	**4.**
AMERICAN BRANDS	2895.3**	–14	8282.5	–12	153.3	16	389.0	–6	5.3	3.9	20.8	10	4.
PHILIP MORRIS	16689.0**	0	50335.0	4	1433.0	17	4206.0	16	8.6	7.4	38.2	14	6.
RJR NABISCO HOLDINGS	4063.0	2	11684.0	3	232.0	7	583.0	–3	5.7	5.4	6.1	17	1.
UNIVERSAL (6)	842.5**	27	2503.6	16	10.2	156	15.0	90	1.2	0.6	7.7	26	0.
UST	334.3*	8	980.5	9	110.0	10	319.1	11	32.9	32.3	104.2	14	2.
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	**10586.3**	**16**	**31027.2**	**22**	**576.7**	**201**	**1838.3**	**280**	**5.4**	**2.1**	**19.9**	**11**	**2.**
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	**3150.0**	**8**	**8931.9**	**11**	**–21.1**	**NM**	**198.1**	**–26**	**NM**	**2.1**	**8.2**	**27**	**0.**
BALL	760.7	6	2121.5	7	–57.3	NM	–19.1	NM	NM	3.3	0.0	NM	0.
CROWN CORK & SEAL	1427.1	11	3939.6	17	–19.9	NM	68.8	–24	NM	NM	7.4	29	1.
OWENS-ILLINOIS	962.2	4	2870.8	7	56.1	21	148.4	18	5.8	5.0	22.8	15	0.
(B) PAPER													
GROUP COMPOSITE	**7436.3**	**21**	**22095.3**	**28**	**597.8**	**363**	**1640.2**	**659**	**8.0**	**2.1**	**23.7**	**9**	**2.**
ACX TECHNOLOGIES	221.0	8	690.0	28	7.0	4	25.5	74	3.1	3.3	6.3	15	1.
BEMIS	372.5	5	1124.2	11	20.8	14	58.1	15	5.6	5.1	17.5	17	1.
FEDERAL PAPER BOARD	457.9	22	1357.1	30	55.3	264	160.2	570	12.1	4.1	22.2	8	4.
GREIF BROS. (2)	184.2	25	539.1	29	17.6	102	47.8	144	9.6	5.9	17.1	10	2.
JEFFERSON SMURFIT	1050.9	22	3120.2	33	77.4	NM	183.0	NM	7.4	0.7	NM	7	1.
LONGVIEW FIBRE (2)	253.4	22	715.1	27	18.9	152	58.0	149	7.5	3.6	15.5	11	1.
RIVERWOOD INTERNATIONAL	342.2	4	1021.7	13	16.6	94	44.6	102	4.9	2.6	6.0	43	0.
SONOCO PRODUCTS	687.0	16	2023.9	20	40.6	25	122.3	31	5.9	5.5	21.1	16	1.
STONE CONTAINER	1924.0	30	5706.8	38	129.0	NM	356.8	NM	6.7	NM	45.3	4	4.
TEMPLE-INLAND	869.7	15	2593.4	19	84.8	156	216.0	162	9.8	4.4	14.0	10	4.
UNION CAMP	1073.5	[illegible]	3203.9	30	129.7	497	367.9	525	12.1	2.5	21.0	9	6.
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	**101080.5**	**12**	**307338.6**	**12**	**1503.1**	**–27**	**7626.8**	**9**	**1.5**	**2.3**	**12.8**	**19**	**1.**
AMES DEPARTMENT STORES (11)	504.2**	3	1650.4	3	3.2	–52	22.7	–32	0.6	1.3	22.9	2	0.
ANNTAYLOR STORES (11)	183.7**	15	541.0	23	–3.8	NM	8.0	–58	NM	5.0	5.0	16	0.
AUTOZONE (4)	628.8	20	1418.4	20	54.9	21	111.1	18	8.7	8.6	22.3	27	0.
BAKER (J.) (11)	272.5	6	807.2	8	1.4	–80	8.7	–52	0.5	2.8	6.8	7	1.
BARNES & NOBLE (11)	420.1	20	1414.9	23	–2.6	NM	31.3	86	NM	NM	7.8	43	0.
BEST PRODUCTS (11)	311.8	NA	1187.0	NA	–7.2	NA	14.6	NA	NM	NA	4.1	13	0.
BORDERS GROUP (11)	363.8	12	1276.8	NA	186.9	NM	–165.1	NA	NM	NM	–22.9	NM	–3.
BRADLEES (11)	364.9	–7	1487.0	2	–34.4	NM	–52.2	NM	NM	0.2	–53.2	NM	4.
BROADWAY STORES (11)	484.3**	1	1680.9	1	–37.4	NM	–68.8	NM	NM	NM	–28.6	NA	–1.
CALDOR (11)	670.8	3	2173.1	6	3.3	–60	33.2	21	0.5	1.3	10.5	2	2.
CARSON PIRIE SCOTT (11)	220.8**	–6	863.0	–2	2.7	–10	76.9	134	1.2	1.2	30.8	5	4.
CHARMING SHOPPES (11)	268.4	–17	858.2	–12	–3.1	NM	–2.3	NM	NM	5.6	0.9	49	0.
CONSOLIDATED STORES (11)	325.1	19	1070.4	24	8.8	30	49.8	33	2.7	2.5	17.2	21	1.
CORPORATE EXPRESS (10)	263.0	82	663.2	100	3.7	NM	9.7	NM	1.4	NM	4.6	95	0.
DAYTON HUDSON (11)	5236.0**	9	16991.0	9	28.0	–43	318.0	–13	0.5	1.0	12.1	15	5.
DILLARD DEPARTMENT STORES (11)	1309.9**	7	4472.5	6	38.6	14	205.9	6	3.0	2.7	10.7	13	2.
DOLLAR GENERAL (11)	408.2	29	1236.4	25	17.7	27	62.1	37	4.3	4.4	21.4	22	1.

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CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	1 MON EARN PI SH
EDISON BROTHERS STORES (11)	334.7	5	1097.9	-3	-25.7	NM	-14.9	NM	NM	0.2	-4.6	NM	-0
ERNST HOME CENTER (2)	170.4	9	419.3	7	1.0	-83	-2.2	NM	0.6	3.6	-2.5	NM	0
FABRI-CENTERS OF AMERICA (11)	168.5	49	608.1	42	-3.3	NM	11.1	171	NM	NM	9.5	18	0.
FAMILY DOLLAR STORES (4)	389.8	13	1190.6	9	9.1	22	42.5	-10	2.3	2.1	14.4	16	1.
FEDERATED DEPARTMENT STORES (11)	3047.2**	91	9174.6	64	-66.9	NM	-16.6	NM	NM	0.2	0.8	69	0.
FINGERHUT	478.7	11	1359.0	10	8.6	21	20.5	-38	1.8	1.7	6.4	20	0.
GAP (11)	868.5	12	2927.0	13	32.4	-27	201.3	-7	3.7	5.7	20.9	19	2.
HECHINGER (11)	648.6	-9	1734.3	-2	9.1	-57	-28.9	NM	1.4	3.0	-5.2	NM	-0
HILLS STORES (11)	389.4	4	1425.9	4	-45.2	NM	-16.0	NM	NM	NM	-1.4	NM	-1
HOME DEPOT (11)	4151.7	26	10798.2	28	212.9	20	516.6	20	5.1	5.4	14.2	27	1.
HOME SHOPPING NETWORK	239.9	-13	730.2	-11	-17.7	NM	-36.2	NM	NM	2.7	-23.0	NM	-0.
KMART (11)	8503.0**	6	26531.0	4	23.0	-74	128.0	NM	0.3	1.1	2.2	33	0
KOHL'S (11)	363.5	24	1296.2	23	11.1	18	56.8	16	3.1	3.2	19.8	25	1
LANDS' END (11)	189.1	5	775.2	9	1.7	-50	27.0	-23	0.9	1.9	16.7	17	0
LIMITED (11)	1718.6**	8	5845.4	7	48.8	-9	344.7	16	2.8	3.4	15.6	17	1.
LOWE'S (11)	1978.1	20	5100.2	22	85.0	19	190.2	28	4.3	4.3	15.5	18	1
MAY DEPARTMENT STORES (11)	2948.0**	9	9685.0	7	141.0	8	656.0	8	4.8	4.8	18.2	13	3.
MELVILLE	2814.0	3	8076.2	6	-2.5	NM	2.2	-98	NM	1.9	8.7	18	1.
MERCANTILE STORES (11)	642.4**	4	2173.9	4	6.5	-34	76.0	2	1.0	1.6	7.3	17	2.
MEYER (FRED) (11)	775.8	5	2544.5	3	10.7	-44	22.3	-66	1.4	2.6	-2.6	NM	-0.
MICHAELS STORES (11)	259.9	49	902.9	59	-33.1	NM	-3.4	NM	NM	0.4	1.3	76	0.
MICRO WAREHOUSE	337.3	68	904.0	72	11.4	63	31.4	65	3.4	3.5	15.5	37	1
NEIMAN MARCUS GROUP (5)	420.6**	5	1368.6	7	9.6	70	47.5	-6	2.3	1.4	158.1	19	1.
NORDSTROM (11)	1149.2**	6	3155.8	7	53.9	-15	151.4	-3	4.7	5.8	13.5	16	2.
OFFICE DEPOT	1337.1	28	3888.7	29	36.8	34	96.7	33	2.8	2.6	16.3	33	0.
OFFICEMAX (11)	482.5	34	1608.7	33	1.2	NM	25.6	52	0.2	NM	4.1	51	0.
PAMIDA HOLDINGS (11)	187.0	4	551.8	9	0.6	-28	1.6	NM	0.3	0.5	24.8	9	0.
PAYLESS CASHWAYS (1)	737.2	-1	2005.1	-1	8.1	-56	8.9	-74	1.1	2.5	5.3	9	0.
PENNEY (J.C.) (11)	4794.0	5	16522.0	4	116.0	-12	700.0	-12	2.4	2.9	17.6	12	3.
PEP BOYS–MANNY, MOE & JACK (11)	410.8	11	1107.7	10	25.2	7	59.7	6	6.1	6.4	12.8	18	1
PETSMART (11)	233.4	31	599.3	40	-15.5	NM	-5.9	NM	NM	0.6	-4.9	NM	-0.
PRICE/COSTCO (4)	6013.8**	18	14217.4	11	71.3	22	168.7	17	1.2	1.2	14.9	17	1.
ROSS STORES (11)	351.2	12	1039.7	13	10.3	17	26.7	2	2.9	2.8	14.1	10	1.
SEARS, ROEBUCK	8418.0	6	24071.0	5	228.0	19	570.0	14	2.7	2.4	27.0	14	2.
SERVICE MERCHANDISE	730.0	-4	2332.0	0	-8.5	NM	-30.7	NM	NM	NM	18.1	10	0.
SHOPKO STORES (10)	418.2	10	1464.4	8	1.9	-32	26.0	45	0.4	0.7	9.4	10	1.
SPIEGEL	685.9	7	2064.8	7	-22.6	NM	-46.9	NM	NM	0.4	-7.0	NM	-0.
SPORTS AUTHORITY (11)	268.4	33	760.3	32	6.9	43	19.4	33	2.6	2.4	7.3	26	0.
STAPLES (11)	605.0	57	1938.5	68	9.0	175	38.3	227	1.5	0.9	9.3	56	0.
STRAWBRIDGE & CLOTHIER (11)	218.6**	-2	762.9	-1	-9.1	NM	5.1	-77	NM	0.1	2.3	33	0.
TALBOTS (11)	226.9	16	721.8	17	8.3	19	38.8	25	3.6	3.5	14.8	15	1.
TIFFANY (11)	184.7**	21	574.1	17	5.3	54	26.8	15	2.9	2.3	13.4	22	1.
TJX (11)	848.9	10	2873.1	8	7.7	-61	27.4	61	0.9	2.6	11.9	21	0.
TOYS 'R' US (11)	1614.2	11	7307.4	7	15.8	-58	443.1	-2	1.0	2.6	14.6	14	1.
VALUE CITY DEPARTMENT STORES (5)	211.6**	9	670.6	3	4.0	NM	8.7	-70	NM	3.8	5.9	15	0.
VENTURE STORES (11)	456.8**	4	1597.0	6	-17.3	NM	3.8	-89	NM	0.4	1.1	26	0.
VIKING OFFICE PRODUCTS (6)	230.0	26	670.4	38	13.3	29	39.9	37	5.8	5.7	23.5	38	1.
WABAN (11)	1051.9	11	2908.4	9	24.4	15	54.0	NM	2.3	2.2	13.0	8	2.
WAL-MART STORES (11)	22723.0	14	67610.7	17	634.0	12	2216.6	15	2.8	2.8	21.0	19	1.
WICKES LUMBER	284.5	0	749.0	8	1.9	-82	-0.2	NM	0.7	3.8	64.9	3	3.
WOOLWORTH (11)	1922.0**	3	6276.0	-3	-11.0	NM	-1.0	NM	NM	NM	2.7	57	0.
ZALE (5)	211.4	6	830.7	13	-3.1	NM	34.6	18	NM	NM	8.0	17	0.
9 ELECTRICAL & ELECTRONICS													
INDUSTRY COMPOSITE	41555.5	21	118775.8	19	3630.2	37	10360.3	35	8.7	7.8	19.3	18	2.
(A) ELECTRICAL PRODUCTS													
GROUP COMPOSITE	5515.4	4	16307.5	9	244.9	68	657.8	24	4.4	2.7	10.7	26	0.
AMETEK	204.9	8	635.6	9	10.8	11	32.9	20	5.3	5.1	54.4	14	1.
COOPER INDUSTRIES	1206.4**	6	3597.7	7	69.3	-9	207.4	0	5.7	6.7	17.7	14	2.
GENERAL SIGNAL	455.5	17	1287.9	16	25.6	-7	76.3	2	5.6	7.1	19.9	14	2.
HUBBELL	287.0	7	860.4	17	31.7	16	90.2	16	11.0	10.2	18.6	17	3.
NATIONAL SERVICE INDUSTRIES (4)	518.0	3	1489.6	5	29.8	22	73.0	15	5.7	4.9	12.6	16	1.
RAYCHEM (6)	410.5	12	1190.4	6	32.4	NM	39.3	NM	7.9	NM	7.6	34	1.
THOMAS & BETTS	303.1	9	903.8	15	21.2	NM	56.8	NM	7.0	NM	13.3	17	3.
WESTINGHOUSE ELECTRIC	2130.0	-3	6342.0	7	24.0	-66	82.0	-46	1.1	3.2	-3.2	NM	-0.
(B) ELECTRONICS													
GROUP COMPOSITE	18068.2	16	52326.2	14	1106.5	14	3392.3	20	6.1	6.2	16.7	17	2.
GENERAL INSTRUMENT	563.3	2	1783.6	19	-40.9	NM	70.2	-57	NM	10.2	19.6	16	1.
HARRIS (6)	816.7	1	2590.4	1	33.5	16	124.4	30	4.1	3.6	12.4	14	4.
HUGHES ELECTRONICS	3468.3	4	10743.6	3	256.1	5	813.4	-1	7.4	7.4	12.9	16	2.
LITTON INDUSTRIES (5)	975.1	16	2530.9	-3	38.7	NM	102.9	306	4.0	NM	17.7	14	2.
LORAL (9)	1605.0	19	4568.5	11	82.1	24	247.5	20	5.1	4.9	18.0	17	1.
MOTOROLA	6851.0	21	19739.0	25	496.0	31	1349.0	29	7.2	6.7	18.7	21	3.
RAYTHEON	3153.0	29	8356.2	15	200.7	5	570.1	46	6.4	7.9	18.8	14	3.
TRACOR	229.2	40	657.9	30	7.7	65	20.7	64	3.3	2.8	20.6	13	1.
VARIAN ASSOCIATES (3)	406.7	7	1356.0	16	32.6	41	94.0	47	8.0	6.1	21.3	16	3.

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CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	1 MON EARN PI SH
(C) INSTRUMENTS													
GROUP COMPOSITE	**2861.2**	**16**	**8260.0**	**14**	**184.3**	**38**	**481.5**	**31**	**6.4**	**5.4**	**17.1**	**19**	**2.**
BECKMAN INSTRUMENTS	229.9	6	665.5	4	13.9	23	38.0	11	6.0	5.2	14.9	18	1.
HONEYWELL	1680.3	11	4814.6	11	84.2	21	207.8	19	5.0	4.6	15.7	18	2.
PERKIN-ELMER (6)	264.4	7	819.6	6	17.6	18	52.5	–1	6.7	6.0	22.8	22	1.
TEKTRONIX (7)	401.0	23	1205.4	16	22.7	31	69.7	23	5.7	5.3	14.0	21	2.
TERADYNE	285.6	60	755.0	55	46.0	126	113.5	134	16.1	11.4	23.0	17	1.
(D) SEMICONDUCTORS & OTHER COMPONENTS													
GROUP COMPOSITE	**15110.6**	**38**	**41882.2**	**34**	**2094.5**	**49**	**5828.6**	**47**	**13.9**	**12.9**	**24.0**	**18**	**2.**
ADVANCED MICRO DEVICES	590.4	9	1836.7	16	56.2	–35	244.9	–7	9.5	16.0	14.5	10	2.
AMP	1297.4	17	3929.2	24	110.7	16	313.6	15	8.5	8.6	15.4	17	2.
AMPHENOL	189.0	6	594.6	17	16.1	37	46.4	58	8.5	6.6	18.9	16	1.
ANALOG DEVICES (2)	246.3	25	684.4	20	31.8	62	84.1	59	12.9	10.0	17.1	26	1.
ATMEL	168.8	71	434.0	62	31.2	101	75.6	81	18.5	15.7	17.0	33	0.
CIRRUS LOGIC (9)	317.8	57	891.3	58	33.0	166	74.7	74	10.4	6.2	19.4	34	1.
INTEGRATED DEVICE TECHNOLOGY (9)	178.5	87	456.5	61	34.3	102	87.7	75	19.2	17.8	22.3	15	1.
INTEL	4171.0	46	11622.0	40	931.0	41	2699.0	41	22.3	23.0	28.8	19	3.
JABIL CIRCUIT (4)	205.4	66	452.3	52	5.0	NM	5.5	219	2.4	NM	12.2	35	0.
LSI LOGIC	330.8	38	918.1	42	65.5	122	166.5	130	19.8	12.3	18.2	30	1.
MICRON TECHNOLOGY (4)	1028.0	109	2417.7	85	281.1	98	684.8	106	27.3	28.9	44.5	18	3.
MOLEX (6)	338.2	26	992.1	28	35.2	29	103.9	31	10.4	10.2	11.9	27	1.
NATIONAL SEMICONDUCTOR (7)	698.8	26	1940.0	14	73.5	25	211.7	3	10.5	10.7	18.0	12	2.
READ-RITE (3)	288.7	47	783.6	55	46.7	203	104.0	373	16.2	7.8	25.6	15	2.
SCI SYSTEMS (6)	876.6	42	2310.4	42	15.1	50	40.1	86	1.7	1.6	14.4	21	1.
SOLECTRON (4)	570.7	29	1558.9	37	23.0	38	61.3	41	4.0	3.7	14.8	21	1.
TEXAS INSTRUMENTS	3426.0	33	9525.0	26	289.0	56	797.0	58	8.4	7.2	25.6	14	5.
VLSI TECHNOLOGY	188.2	24	535.6	22	16.2	114	27.7	25	8.6	5.0	10.1	28	0.
10 FOOD													
INDUSTRY COMPOSITE	**81720.0**	**5**	**239232.5**	**6**	**2200.8**	**10**	**6973.6**	**38**	**2.7**	**2.6**	**22.9**	**19**	**1.**
(A) FOOD DISTRIBUTION													
GROUP COMPOSITE	**13456.9**	**4**	**42691.8**	**12**	**132.8**	**–6**	**440.8**	**5**	**1.0**	**1.1**	**10.0**	**24**	**1.**
FLEMING	3896.3	–6	13351.3	21	3.7	35	38.0	–17	0.1	0.1	4.4	18	1.
INTERNATIONAL MULTIFOODS (10)	621.3	30	1873.4	20	7.0	–78	23.3	–21	1.1	6.6	11.5	11	1.
JP FOODSERVICE (6)	310.8	11	866.8	9	3.5	NM	9.4	NM	1.1	NM	10.3	22	0.
RICHFOOD HOLDINGS (8)	395.8	34	1275.1	28	6.4	31	21.5	21	1.6	1.6	20.9	21	1.
RYKOFF-SEXTON (8)	421.8	11	1217.7	10	2.6	25	5.9	82	0.6	0.6	4.7	35	0.
SMART & FINAL	365.3	26	890.9	26	6.6	14	13.2	–2	1.8	2.0	13.2	22	0.
SUPER RITE (10)	374.5	10	1153.2	13	3.6	25	10.9	135	1.0	0.8	28.1	NA	1.
SUPERVALU (10)	3779.4	0	12643.2	2	33.3	–1	122.6	–10	0.9	0.9	3.3	53	0.
SYSCO (6)	3291.9	10	9420.2	10	66.2	13	196.1	14	2.0	2.0	18.5	21	1.
(B) FOOD PROCESSING													
GROUP COMPOSITE	**32798.4**	**8**	**95483.8**	**8**	**1488.3**	**10**	**4770.4**	**55**	**4.5**	**4.4**	**23.0**	**18**	**2.**
CAMPBELL SOUP (5)	1630.0	11	5414.0	10	143.0	1	501.0	8	8.8	9.7	28.3	19	2.
CONAGRA (7)	6436.4	3	18010.8	2	87.1	13	356.0	14	1.4	1.2	20.7	19	2.
CPC INTERNATIONAL	2046.2	13	6041.1	12	142.2	13	395.2	89	7.0	6.9	28.2	19	3.
DEAN FOODS (7)	651.5	6	2004.6	5	13.7	–19	56.7	–5	2.1	2.8	13.1	15	1.
DOLE FOOD	1048.6	6	2966.5	11	14.3	NM	114.5	88	1.4	NM	10.0	19	1.
FLOWERS INDUSTRIES (6)	269.7	16	895.4	16	7.9	27	33.3	46	2.9	2.7	14.4	20	1.
FOODBRANDS AMERICA	169.2	11	455.2	27	2.5	99	6.2	NM	1.5	0.8	–10.5	NM	–0.
GENERAL MILLS (7)	1276.3	10	3729.0	0	136.9	16	143.8	-29	10.7	10.2	117.2	33	1.
HEINZ (H. J.) (8)	2094.3	21	6469.6	20	174.5	13	471.2	14	8.3	8.9	24.7	19	2.
HERSHEY FOODS	981.1	2	2570.8	2	82.1	1	176.1	10	8.4	8.4	19.6	26	2.
HORMEL FOODS (2)	732.4	–1	2211.1	–1	21.0	4	81.9	28	2.9	2.7	19.2	13	1.
IBP	3291.0	10	9507.2	8	85.4	74	223.1	114	2.6	1.6	33.0	9	6.
INTERSTATE BAKERIES (7)	471.4	72	1139.4	30	5.7	–3	14.5	97	1.2	2.1	4.6	23	0.
KELLOGG	1844.7	6	5340.8	7	230.0	6	561.9	2	12.5	12.4	38.5	23	3.
McCORMICK (1)	432.0	2	1302.4	10	19.9	25	55.3	–13	4.6	6.3	11.0	40	0.
NABISCO HOLDINGS	2044.0	[illegible]	5944.0	7	71.0	9	198.0	34	3.5	3.3	7.5	NA	[illegible]
QUAKER OATS (6)	1553.6	–5	4774.5	2	61.5	0	771.8	386	4.0	3.8	71.1	6	6.
SARA LEE (6)	4656.0	9	13437.0	12	186.0	13	573.0	NM	4.0	3.8	20.0	18	1.
SEABOARD	288.3	34	779.6	13	7.1	25	21.9	–10	2.5	2.6	9.1	12	22.
SMITHFIELD FOODS (8)	367.3	11	1203.4	8	–2.6	NM	18.0	–18	NM	0.8	14.2	18	1.
THORN APPLE VALLEY (7)	263.7	12	585.9	0	–5.2	NM	–10.1	NM	NM	1.1	–2.7	NM	–0.
WLR FOODS (6)	250.8	19	701.4	22	4.3	–34	7.1	–53	1.7	3.1	8.2	19	0.
(C) FOOD RETAILING													
GROUP COMPOSITE	**35464.8**	**3**	**101056.8**	**3**	**579.7**	**12**	**1762.5**	**14**	**1.6**	**1.5**	**30.9**	**19**	**1.**
ALBERTSON'S (11)	[illegible]	4	9271.8	3	106.2	[illegible]	349.7	14	3.4	3.1	24.8	20	1.
AMERICAN STORES (11)	4494.[illegible]	–4	13503.7	–5	73.9	7	258.1	18	1.6	1.5	15.9	12	2.
CASEY'S GENERAL STORES (8)	253.0	14	656.9	15	7.9	23	16.8	31	3.1	2.9	13.0	24	0.
CIRCLE K (8)	924.9	0	NA	NA	10.6	NM	NA	NA	1.1	0.0	NA	NA	[illegible]
DELCHAMPS (6)	284.7	7	812.1	3	–0.8	NM	–28.1	NM	NM	0.6	–25.4	NM	–3.
EAGLE FOOD CENTERS (11)	249.0	–1	755.1	–2	–4.7	NM	–13.9	NM	NM	NM	–64.6	NM	–1.
FOOD LION	1914.0	3	5675.5	4	41.0	12	117.4	15	2.1	2.0	15.5	17	0.

ORPORATE SCOREBOARD

OMPANY	SALES 3RD QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	12 MONTHS' EARNINGS PER SHARE
NERAL NUTRITION (11)	194.4	37	613.6	31	15.1	53	45.5	48	7.8	7.0	21.2	33	0.69
NT FOOD (10)	856.5	4	2930.5	4	17.8	21	80.4	13	2.1	1.8	12.7	19	1.67
EAT ATLANTIC & PACIFIC TEA (10)	2341.2	–2	7846.8	–2	9.4	55	29.7	NM	0.4	0.3	–19.8	NM	–4.08
NNAFORD BROTHERS	653.9**	5	1887.5	12	19.7	3	53.3	17	3.0	3.1	14.4	16	1.67
OGER	6959.2	5	18077.1	4	62.7	22	209.6	19	0.9	0.8	NM	13	2.58
TIONAL CONVENIENCE STORES (6)	236.7	1	686.9	3	4.8	322	7.4	324	2.0	0.5	11.2	17	1.40
NN TRAFFIC (11)	884.2**	6	2603.7	5	–51.7	NM	–43.5	NM	NM	0.8	NM	NM	–3.48
ALITY FOOD CENTERS	176.1	30	490.5	28	4.6	–24	13.7	–24	2.6	4.5	66.0	17	1.26
FEWAY	3845.5	6	11231.2	5	83.7	31	214.4	30	2.2	1.8	39.6	19	2.47
ITH'S FOOD & DRUG CENTERS	768.3	6	2285.4	3	11.1	–17	29.6	–14	1.4	1.8	8.9	12	1.70
UTHLAND	1847.9***	1	5185.1	2	49.6	15	85.4	28	2.7	2.4	NM	12	0.27
OP & SHOP (11)	923.3	4	3023.7	4	20.5	1	69.0	11	2.2	2.3	28.9	13	1.64
PERMARKETS GENERAL HOLDING (11)	1024.7	–2	3205.7	2	32.7	692	40.3	62	3.2	0.4	NM	NA	NA
LAGE SUPER MARKET (5)	173.7	–8	510.0	–5	0.4	NM	0.5	NM	0.2	NM	1.1	35	0.20
IS MARKETS	404.6	7	1209.7	8	19.2	2	56.6	5	4.7	5.0	10.1	16	1.82
NN-DIXIE STORES (6)	2935.0	13	8594.6	10	45.9	15	170.5	9	1.6	1.5	19.2	20	3.18
. FUEL													
DUSTRY COMPOSITE	**109050.4**	**4**	**327211.6**	**11**	**4226.7**	**2**	**13734.7**	**32**	**3.9**	**3.9**	**12.9**	**17**	**3.17**
COAL, OIL & GAS													
OUP COMPOSITE	**104843.0**	**3**	**315215.8**	**11**	**3948.2**	**1**	**12985.1**	**32**	**3.8**	**3.9**	**12.9**	**17**	**3.23**
ERADA HESS	1663.3**	8	5419.6	10	–104.6	NM	–119.6	NM	NM	NM	–3.6	NM	–1.20
OCO	6661.0	–2	20095.0	5	599.0	35	1655.0	32	9.0	6.6	15.1	15	4.42
ACHE	181.2**	18	550.2	27	7.0	43	11.7	65	3.9	8.1	2.7	65	0.38
HLAND (3)	3273.0***	14	9461.0	21	–30.0	NM	–11.0	NM	NM	2.1	0.4	NM	0.08
ANTIC RICHFIELD	3872.0	0	11812.0	6	315.0	-28	1028.0	69	8.1	11.3	20.2	13	8.19
RLINGTON RESOURCES	210.2	–23	636.0	–22	–299.6	NM	–302.2	NM	NM	7.6	–9.9	NM	–1.96
EVRON	7881.0	–4	23686.0	5	282.0	–34	1348.0	26	3.6	5.2	13.0	16	3.03
ASTAL	2546.2	–5	7778.0	–1	44.2	66	159.0	5	1.7	1.0	8.8	16	2.13
MOND SHAMROCK	746.3	7	2212.7	15	5.7	–72	39.2	–35	0.8	2.9	8.1	15	1.73
XON	30969.0***	5	92415.0	12	1500.0	30	4790.0	50	4.8	3.9	16.6	14	5.36
A	916.3	0	2744.8	8	45.0	61	120.2	81	4.9	3.0	13.1	9	5.00
RR-McGEE	456.0	12	1376.6	14	–132.9	NM	–60.9	NM	NM	5.0	–2.5	NM	–0.35
TCHELL ENERGY & DEVELOPMENT (11)	308.4	30	747.3	8	5.5	–52	11.3	–52	1.8	4.8	6.5	34	0.50
BIL	18637.0***	10	55113.0	14	786.0	56	1601.0	30	4.2	3.0	12.0	20	5.22
RPHY OIL	423.2**	–10	1293.3	0	7.6	–80	44.2	–50	1.8	7.9	4.8	28	1.39
CIDENTAL PETROLEUM	2557.0	6	7950.0	19	139.0	504	504.0	NM	5.4	1.0	12.4	16	1.31
ILLIPS PETROLEUM	3369.0	2	10047.0	9	136.0	14	360.0	12	4.0	3.6	16.6	16	1.99
AKER STATE	277.1	54	774.3	52	4.1	5	3.8	-52	1.5	2.2	2.6	39	0.33
N	2415.0***	-11	7918.0	12	78.0	63	180.0	91	3.2	1.8	8.8	15	1.77
SORO PETROLEUM	245.2	–3	745.0	14	36.8	NM	46.0	790	15.0	NM	35.8	3	2.44
XACO	8815.0**	–2	27126.0	11	288.0	3	851.0	42	3.3	3.1	12.3	15	4.52
SCO	1816.8	9	5417.2	19	26.8	177	43.3	-31	1.5	0.6	11.1	20	1.72
ION TEXAS PETROLEUM HOLDINGS	197.0**	2	637.0	20	12.0	–18	79.0	59	6.1	7.5	23.0	17	1.09
OCAL	2005.0**	–1	6201.0	4	59.0	–16	211.0	10	2.9	3.5	4.5	63	0.43
X–MARATHON GROUP	3492.0	0	10357.0	11	97.0	–5	282.0	–1	2.8	2.9	9.6	17	1.09
ERO ENERGY	740.4	28	2175.5	71	22.6	80	46.9	103	3.1	2.2	3.8	27	0.89
STAR RESOURCES	169.3**	–14	527.3	–12	18.9	–39	64.2	-41	11.2	15.7	172.9	27	1.07
PETROLEUM SERVICES													
OUP COMPOSITE	**4207.5**	**13**	**11995.8**	**9**	**278.5**	**28**	**749.6**	**46**	**6.6**	**5.8**	**12.6**	**22**	**2.37**
LLIBURTON	1489.8**	11	4161.3	3	68.8	39	161.9	223	4.6	3.7	14.4	17	2.53
HLUMBERGER	1918.8	17	5558.2	13	168.8	24	482.5	26	8.8	8.3	13.1	24	2.64
ITH INTERNATIONAL	229.4**	26	635.0	39	11.7	26	32.7	29	5.1	5.2	15.5	15	1.10
STERN ATLAS	569.4	2	1641.3	2	29.2	35	72.6	29	5.1	3.9	7.3	27	1.75
: HEALTH CARE													
DUSTRY COMPOSITE	**54346.9**	**16**	**161685.5**	**19**	**5552.7**	**12**	**17048.5**	**18**	**10.2**	**10.6**	**25.2**	**21**	**2.52**
DRUG DISTRIBUTION													
OUP COMPOSITE	**13708.1**	**12**	**42265.6**	**16**	**202.5**	**23**	**789.1**	**49**	**1.5**	**1.3**	**10.6**	**30**	**1.05**
BOR DRUGS (5)	179.9	13	539.8	14	5.6	8	18.4	82	3.1	3.3	15.8	19	0.94
IDLEY WESTERN INDUSTRIES	1121.5	11	3361.5	15	3.5	6	11.9	12	0.3	0.3	8.4	12	1.40
RDINAL HEALTH (6)	2033.0	12	6053.6	23	20.5	28	68.6	189	1.0	0.9	16.3	27	2.10
KERD (11)	1138.7	7	3660.9	8	12.1	101	87.4	27	1.1	0.6	NM	15	2.68
/'S (11)	269.8	7	822.3	10	1.0	–62	7.6	–27	0.4	1.0	9.2	17	0.48
NGS DRUG STORES (11)	646.4	3	1981.4	2	12.5	4	43.0	3	1.9	1.9	9.6	17	2.40
KESSON (9)	3348.4**	3	10032.5	4	31.7	85	104.1	39	0.9	0.5	–16.5	NM	–4.00
VCO D. S. (7)	1076.7	55	3787.0	78	8.4	45	58.7	52	0.8	0.8	8.2	25	0.97
'E AID (10)	1328.4	28	4037.0	28	30.9	14	122.5	812	2.3	2.6	14.3	16	1.78
LGREEN (4)	2565.2	12	7989.5	12	76.3	10	266.8	12	3.0	3.0	18.4	22	1.30

CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	12 MONTHS EARNINGS PER SHARE
(B) DRUGS & RESEARCH													
GROUP COMPOSITE	**21164.7**	**17**	**62710.6**	**20**	**3503.6**	**7**	**10869.9**	**17**	**16.6**	**18.1**	**29.5**	**20**	**3.1**
ALLERGAN	273.6	13	764.1	13	34.2	13	32.9	–57	12.5	12.5	11.3	30	1.0
AMERICAN HOME PRODUCTS	3257.8	44	10048.1	57	276.5	–33	1598.8	42	8.5	18.3	37.0	14	6.4
AMGEN	493.3	16	1426.4	18	145.8	28	392.1	25	29.6	26.7	25.2	33	1.4
BRISTOL-MYERS SQUIBB	3413.0	16	10159.0	16	690.0	11	1954.0	12	20.2	21.2	33.0	19	4.0
GENENTECH	223.9**	16	695.9	18	40.2	20	120.8	14	18.0	17.3	9.5	43	1.1
LILLY (ELI)	1631.9	8	4964.0	19	310.5	5	995.3	9	19.0	19.6	21.2	22	4.3
MERCK	4171.1	10	12124.1	9	861.9	10	2477.4	11	20.7	20.7	28.6	23	2.6
PFIZER	2624.3	26	7509.2	26	425.3	26	1162.0	20	16.2	16.2	31.0	26	2.3
RHONE-POULENC RORER	1212.7	7	3552.4	15	112.1	–2	298.7	54	9.2	10.1	27.4	15	3.3
SCHERING-PLOUGH	1256.8	15	3813.5	13	252.6	12	813.6	14	20.1	20.7	56.7	20	2.4
UPJOHN	830.6**	3	2474.0	2	140.4	0	407.9	7	16.9	17.3	20.2	17	2.9
WARNER-LAMBERT	1775.7	6	5179.9	10	214.0	26	616.4	11	12.1	10.1	36.3	16	5.5
(C) HEALTH-CARE SERVICES													
GROUP COMPOSITE	**6281.3**	**31**	**17055.3**	**28**	**341.2**	**29**	**864.1**	**12**	**5.4**	**5.5**	**14.8**	**18**	**1.2**
BEVERLY ENTERPRISES	834.9	9	2420.9	10	24.8	5	55.6	–3	3.0	3.1	7.8	18	0.7
HEALTH CARE & RETIREMENT	181.8	17	530.0	16	12.8	18	37.3	20	7.1	7.0	13.6	22	1.4
HEALTHSOUTH	392.7	23	1109.7	23	27.1	68	44.9	–1	6.9	5.1	11.6	42	0.6
HORIZON/CMS HEALTHCARE (7)	431.4**	13	777.6	29	–28.9	NM	–11.4	NM	NM	3.2	–1.0	63	0.3
LABORATORY CORP. OF AMERICA HOLDINGS	417.5	68	1028.6	61	14.4	NM	–4.4	NM	3.5	0.1	0.8	NM	0.0
MANOR CARE (7)	373.4	16	1049.7	15	28.4	17	73.5	17	7.6	7.6	15.1	21	1.5
NOVACARE (6)	198.1	–14	640.5	–1	8.0	–28	50.0	8	4.0	4.8	12.1	7	0.9
ORNDA HEALTHCORP (4)	484.1**	24	1424.7	42	16.0	NM	58.0	NM	3.3	NM	19.5	12	1.5
QUORUM HEALTH GROUP (6)	253.7	31	711.9	25	14.6	27	45.3	35	5.7	5.9	15.9	18	1.2
TENET HEALTHCARE (7)	1283.9	94	3300.3	59	118.3	85	202.1	22	9.2	9.7	12.5	13	1.3
U. S. HEALTHCARE	927.7**	23	2628.2	20	92.2	–9	279.8	–1	9.9	13.4	45.1	15	2.4
UNITED WISCONSIN SERVICES	267.9**	38	764.2	41	6.3	–27	4.8	–80	2.4	4.4	6.7	22	1.1
UNIVERSAL HEALTH SERVICES	234.1**	22	669.0	16	7.2	24	28.6	18	3.1	3.0	11.7	15	2.3
(D) MEDICAL PRODUCTS													
GROUP COMPOSITE	**13192.9**	**12**	**39654.2**	**16**	**1505.5**	**19**	**4525.5**	**19**	**11.4**	**10.8**	**24.0**	**22**	**2.3**
ABBOTT LABORATORIES	2390.8	6	7415.5	11	382.1	9	1223.3	12	16.0	15.6	38.8	20	2.0
BARD (C. R.)	273.5	6	834.0	7	14.1	–39	63.6	–10	5.2	8.9	14.1	23	1.2
BAUSCH & LOMB	476.8	6	1477.8	8	43.5	466	115.4	51	9.1	1.7	5.6	39	0.9
BAXTER INTERNATIONAL	2456.0	6	7239.0	6	163.0	9	473.0	12	6.6	6.4	17.5	18	2.3
BOSTON SCIENTIFIC	232.8	29	675.8	28	47.0	29	24.3	–54	20.2	20.2	8.1	NM	0.4
GUIDANT	234.1	8	683.0	9	28.0	8	70.3	2	12.0	11.9	30.5	26	1.3
JOHNSON & JOHNSON	4738.0	17	13996.0	20	623.0	19	1938.0	19	13.2	13.0	27.0	22	3.5
MALLINCKRODT GROUP (6)	492.1	10	1700.2	15	35.7	17	144.5	119	7.3	6.8	15.9	15	2.3
MEDTRONIC (8)	523.8	30	1454.2	29	99.7	53	258.9	37	19.0	16.1	23.0	25	2.2
OWENS & MINOR	739.0	7	2229.8	34	–8.6	NM	–2.3	NM	NM	0.2	–0.5	NM	–0.0
ST. JUDE MEDICAL	176.0	182	542.0	177	31.9	30	95.6	24	18.1	39.2	14.6	29	2.0
STRYKER	205.4	18	647.9	36	20.1	20	61.3	20	9.8	9.6	20.7	28	1.1
U. S. SURGICAL	254.8	9	759.0	10	25.9	96	59.4	347	10.2	5.6	6.3	31	0.8
13 HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	**12271.3**	**9**	**34878.0**	**11**	**776.4**	**23**	**1980.0**	**49**	**6.3**	**5.6**	**19.9**	**14**	**2.1**
(A) BUILDING MATERIALS													
GROUP COMPOSITE	**8834.2**	**8**	**25452.1**	**12**	**651.5**	**27**	**1665.2**	**78**	**7.4**	**6.3**	**25.1**	**14**	**2.4**
AMERICAN STANDARD	1316.0	11	3910.0	18	43.0	287	119.0	NM	3.3	0.9	NM	52	0.5
LAFARGE	510.5	–3	1103.3	–5	85.9	19	93.5	93	16.8	13.7	14.6	10	1.8
MARTIN MARIETTA MATERIALS	191.1	32	497.0	32	23.4	6	51.6	14	12.2	15.3	16.4	14	1.4
NORTEK	193.6	–2	572.6	2	5.2	–19	10.9	–14	2.7	3.2	12.3	7	1.0
OWENS-CORNING FIBERGLAS	927.0	–1	2648.0	7	70.0	32	165.0	432	7.6	5.7	NM	10	4.[illegible]
PPG INDUSTRIES	1724.1	9	5335.3	14	170.4	17	606.4	67	9.9	9.2	28.7	12	3.6
RPM (7)	279.1	10	789.4	20	19.6	7	47.1	12	7.0	7.3	17.4	18	1.0
SHERWIN-WILLIAMS	911.4	4	2532.9	6	74.9	5	166.9	7	8.2	8.1	17.5	16	2.3
SOUTHDOWN	170.4**	8	444.5	6	14.5	69	34.2	76	8.5	5.4	17.5	8	2.0
TECUMSEH PRODUCTS	392.7	11	1333.6	14	24.9	–7	95.1	4	6.3	7.6	14.4	9	5.6
TEXAS INDUSTRIES (7)	232.1**	15	661.6	17	17.1	59	42.4	44	7.4	5.4	15.9	11	4.6
USG	629.0	1	1842.0	9	–2.0	NM	–7.0	NM	NM	NM	NM	NM	–0.9
VALSPAR (2)	216.3	6	584.6	–3	15.5	5	33.0	–1	7.2	7.2	22.7	20	2.0
VULCAN MATERIALS	422.0	17	1099.2	22	59.1	57	122.8	86	14.0	10.4	20.2	13	4.7
YORK INTERNATIONAL	719.0	20	2098.3	19	30.0	33	84.3	24	4.2	3.8	13.2	16	2.6
(B) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	**3437.1**	**12**	**9425.8**	**7**	**124.8**	**8**	**314.8**	**–19**	**3.6**	**3.8**	**10.2**	**16**	**1.3**
CENTEX (9)	786.8**	–8	2283.9	–9	14.6	–14	31.3	–66	1.9	2.0	6.6	21	1.5
CHAMPION ENTERPRISES	226.8	34	623.9	38	9.6	18	24.1	16	4.2	4.8	27.4	14	1.8
CLAYTON HOMES (6)	215.3	28	627.5	22	22.6	24	73.2	27	10.5	10.8	16.8	22	1.2
HOVNANIAN ENTERPRISES (2)	173.2**	38	446.0	–11	2.1	NM	3.5	–79	1.2	NM	–1.0	NM	–0.0
KAUFMAN & BROAD HOME (1)	372.3	7	917.6	–2	6.9	–36	11.1	–64	1.8	3.1	4.2	18	0.6
LENNAR (1)	204.7**	3	596.4	0	15.7	–15	50.4	–2	7.7	9.3	11.9	12	1.8
M.D.C. HOLDINGS	234.6**	9	642.4	11	5.5	2	13.9	–7	2.4	2.5	9.3	9	0.9
PULTE	543.3**	20	1361.7	12	16.3	–9	25.3	–44	3.0	4.0	6.0	19	1.5

)RPORATE SCOREBOARD

MPANY	SALES 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	12 MONTHS' EARNINGS PER SHARE
L BROTHERS (2)	186.9**	56	446.7	36	15.2	91	32.9	58	8.2	6.7	20.2	12	1.44
. HOME	286.7**	12	809.2	12	9.8	7	25.8	10	3.4	3.6	11.7	8	3.04
3B (DEL) (6)	206.3**	27	670.5	46	6.5	23	23.1	42	3.2	3.3	13.0	10	1.91
LEISURE TIME INDUSTRIES													
)USTRY COMPOSITE	**19086.6**	**9**	**51322.8**	**11**	**1422.2**	**3**	**3813.2**	**12**	**7.5**	**7.9**	**16.2**	**22**	**1.58**
EATING PLACES													
)UP COMPOSITE	**4657.9**	**13**	**10854.9**	**15**	**458.7**	**–3**	**1262.6**	**11**	**9.8**	**11.5**	**18.8**	**21**	**1.68**
. EVANS FARMS (8)	205.9	4	580.5	7	14.4	9	40.6	9	7.0	6.7	13.9	13	1.30
NKER INTERNATIONAL (6)	289.5	17	838.0	18	15.6	–16	53.7	2	5.4	7.5	14.0	13	0.95
CKER BARREL OLD COUNTRY STORE (5)	221.2	21	598.1	22	23.1	9	50.4	16	10.4	11.6	14.0	17	1.09
'DEN RESTAURANTS (7)	836.0	6	NA	NA	–12.1	NM	NA	NA	NM	4.1	NA	NA	NA
)ONALD'S	2580.1	16	7209.0	19	400.1	14	1060.5	16	15.5	15.7	18.9	22	1.89
RRISON RESTAURANTS (7)	272.2**	13	813.5	–6	9.5	–61	35.0	–29	3.5	10.2	18.7	13	1.33
'NEY'S (2)	253.1	–2	815.7	0	8.2	–46	22.4	–44	3.2	5.8	NM	11	0.89
ENTERTAINMENT													
)UP COMPOSITE	**364.1**	**13**	**981.6**	**19**	**14.8**	**15**	**62.2**	**201**	**4.1**	**4.0**	**18.8**	**17**	**0.92**
; ENTERTAINMENT (9)	185.1	12	467.8	8	10.6	43	34.6	194	5.7	4.5	20.9	9	1.98
D GAMING (6)	179.1	14	513.8	30	4.2	–24	27.6	210	2.3	3.5	17.3	24	0.61
HOTEL & MOTEL													
)UP COMPOSITE	**3597.7**	**6**	**10830.8**	**6**	**190.5**	**–8**	**599.8**	**11**	**5.3**	**6.0**	**13.9**	**23**	**1.48**
;US CIRCUS ENTERPRISES (11)	326.8	9	900.6	5	7.3	–80	77.5	–18	2.2	12.2	10.1	21	1.30
RAH'S ENTERTAINMENT	425.8	16	1171.6	18	51.3	68	115.4	40	12.1	8.3	14.9	33	0.81
'ON HOTELS	385.7**	1	1191.8	8	24.8	–8	109.7	31	6.4	7.1	12.4	22	3.05
RIOTT INTERNATIONAL	1926.0	6	6051.0	6	46.0	24	157.0	23	2.4	2.0	25.0	22	1.74
M GRAND	198.3	–5	528.6	–7	15.9	55	14.8	–75	8.0	17.0	5.3	40	0.59
AGE RESORTS	335.2	0	987.2	5	45.2	14	125.5	35	13.5	11.7	14.2	20	1.65
OTHER LEISURE													
)UP COMPOSITE	**10466.8**	**8**	**28655.5**	**11**	**758.3**	**11**	**1888.6**	**12**	**7.2**	**7.1**	**15.4**	**22**	**1.58**
RICAN GREETINGS (10)	431.2	7	1370.0	6	15.0	12	95.7	11	3.5	3.3	13.0	15	2.07
NSWICK	725.7	10	2339.1	14	34.7	18	112.0	1	4.8	4.4	13.4	15	1.35
NIVAL (1)	672.6	12	1545.2	11	209.5	24	366.8	18	31.1	28.1	20.9	16	1.54
EMAN	211.8**	30	747.1	25	9.1	NM	49.9	44	4.3	NM	16.2	20	1.83
TMAN KODAK	3813.0	8	10888.0	12	338.0	75	977.0	54	8.9	5.5	19.9	23	2.63
:TWOOD ENTERPRISES (8)	718.6	–6	2099.5	3	22.8	–22	57.0	–12	3.2	3.8	12.5	12	1.67
LEY-DAVIDSON	427.0	11	1303.2	15	23.7	0	80.7	2	5.6	6.2	22.7	20	1.40
MAN INTERNATIONAL INDUSTRIES (6)	300.5	31	953.4	35	5.9	41	31.0	41	2.0	1.8	14.9	18	2.67
BRO	826.2	4	1834.5	6	63.6	–15	70.4	–32	7.7	9.4	10.4	18	1.66
TEL	1176.5	13	2483.5	14	151.3	15	245.8	15	12.9	12.7	24.5	21	1.27
;ICLAND STORES	357.6	18	1035.7	23	–144.6	NM	–158.4	NM	NM	NM	–78.0	NM	–3.94
AROID	580.0	1	1562.1	–4	23.7	–19	–29.2	NM	4.1	5.1	3.6	71	0.59
O TOYS	226.3	–6	494.0	–2	5.5	NM	–10.0	NM	2.5	NM	–9.1	NM	–0.74
MANUFACTURING													
USTRY COMPOSITE	**40713.8**	**14**	**119146.6**	**16**	**2342.5**	**16**	**6788.6**	**16**	**5.8**	**5.7**	**19.0**	**16**	**2.43**
GENERAL MANUFACTURING													
)UP COMPOSITE	**15382.3**	**13**	**44758.7**	**16**	**1023.6**	**14**	**2601.1**	**4**	**6.7**	**6.6**	**16.7**	**19**	**2.10**
RY DENNISON	783.5	7	2337.2	10	35.8	29	106.0	31	4.6	3.8	17.2	18	2.51
LISLE	216.5	18	605.3	16	12.5	22	33.5	24	5.8	5.6	16.1	15	2.69
NING	1568.8**	9	3982.7	14	83.5	9	–134.3	NM	5.3	5.3	–5.0	NM	–0.46
ACELL INTERNATIONAL (6)	538.9	10	1395.6	10	53.6	1	125.3	14	9.9	10.8	18.7	26	1.95
ERAL SIGNAL	207.9	15	594.4	23	14.6	18	39.9	21	7.0	6.9	22.9	19	1.17
SCO†	374.1	8	1108.3	10	18.4	–18	68.4	17	4.9	6.4	15.3	16	3.45
ENBRAND INDUSTRIES (1)	398.7	6	1199.9	5	25.9	NM	81.1	66	6.5	NM	16.5	19	1.72
NOIS TOOL WORKS	1045.1	20	3064.9	21	100.0	40	281.3	46	9.6	8.2	20.1	19	3.15
NSON CONTROLS (3)	2241.3	21	6472.7	22	67.0	20	154.6	22	3.0	3.0	17.9	13	4.53
K IV INDUSTRIES (10)	509.5	43	1513.0	45	24.1	44	66.3	46	4.7	4.7	12.6	13	1.47
NESOTA MINING & MFG.	4069.0	7	12291.0	10	344.0	1	1073.0	8	8.5	8.9	19.3	17	3.35
'ELL	651.3	18	1829.2	23	65.1	12	156.1	17	10.0	10.5	18.4	18	1.38
KER HANNIFIN (6)	839.1	18	2602.7	25	57.4	31	190.9	191	6.8	6.1	19.5	10	3.42
ARIS INDUSTRIES	291.4	13	831.6	42	18.5	–14	44.0	25	6.4	8.4	102.0	6	4.61
BERMAID	641.5	11	1762.2	10	50.3	–25	133.2	–23	7.8	11.5	15.2	22	1.18
LED AIR	178.5	36	534.0	42	13.4	30	37.6	42	7.5	7.9	65.9	22	1.17
:FLEX	210.3	9	671.1	13	8.3	12	33.9	19	3.9	3.8	13.9	15	2.63
IOVA	441.4	1	1441.7	8	19.0	26	74.9	57	4.3	3.5	23.8	9	3.14
TS INDUSTRIES (6)	175.3	15	521.3	26	12.1	7	35.3	13	6.9	7.5	11.5	14	1.57
MACHINE & HAND TOOLS													
)UP COMPOSITE	**3480.3**	**9**	**10057.5**	**12**	**119.1**	**–7**	**389.0**	**17**	**3.4**	**4.0**	**14.4**	**17**	**2.07**
CK & DECKER	1376.8	4	3905.6	8	43.5	48	104.0	55	3.2	2.2	13.5	19	1.77
AHER	404.5	24	1172.5	26	28.8	25	77.9	37	7.1	7.1	19.4	19	1.72
INGS & LEWIS	195.9	18	521.6	20	8.5	–13	25.0	4	4.4	5.9	9.6	12	1.43

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NACCO INDUSTRIES	538.3	12	1558.3	20	13.7	24	41.2	79	2.5	2.3	20.6	8	7.
SNAP-ON	309.1**	11	945.0	8	26.3	16	82.5	15	8.5	8.2	15.0	16	2.
STANLEY WORKS	655.7	4	1954.5	6	–1.7	NM	58.5	–36	NM	5.1	12.3	22	2.
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	**18598.0**	**18**	**54872.9**	**18**	**1116.6**	**27**	**3525.1**	**29**	**6.0**	**5.5**	**22.8**	**13**	**3.**
AGCO	498.7	4	1526.6	72	36.2	14	95.5	53	7.3	6.6	30.0	7	6.
APPLIED MATERIALS (2)	897 7	104	2079.2	74	139.2	139	298.7	98	15.5	13.2	22.5	23	2.
BRIGGS & STRATTON (6)	189.5	–17	934.6	–5	–3.3	NM	56.4	–29	NM	5.0	20.5	13	3.
CASE	1182.0**	14	3778.0	17	88.0	203	268.0	125	7.4	2.8	22.7	9	4.
CATERPILLAR	3733.0	6	11859.0	14	213.0	–13	836.0	24	5.7	7.0	33.0	10	5.
COLTEC INDUSTRIES	332 1	5	1050.0	6	1.8	–92	49.4	27	0.5	7.3	NM	10	1
DEERE (2)	2699.5**	16	7645.9	17	180.0	14	555.5	28	6.7	6.8	23.9	11	8.
DOVER	934.5	16	2736.8	22	71.1	37	209.8	43	7.6	6.4	23.7	17	2
DRESSER INDUSTRIES (2)	1437.4	20	3998 9	2	45.0	19	128.7	–55	3.1	3.2	12.9	20	1.
FMC	1156.0	15	3299.9	11	57.1	65	187.2	26	4.9	3.4	37.1	13	5.
GOULDS PUMPS	191.5	24	532.2	21	8.9	74	22.6	57	4.7	3.3	13.1	20	1.
HARNISCHFEGER INDUSTRIES (2)	580.4**	49	1590.7	44	37.6	369	73.2	336	6.5	2.1	15.4	16	1.
INGERSOLL-RAND	1521.3	37	4099.0	25	61.8	28	174.7	31	4.1	4.3	15.3	15	2.
LAM RESEARCH (6)	263.2	63	739.5	69	30.5	102	85.7	136	11 6	9.3	24.5	16	3.
PENTAIR	353.3	9	1025.4	11	15.3	12	42.5	20	4.3	4.2	12.3	17	2.
STEWART & STEVENSON SERVICES (11)	319.8	11	896.7	13	16.9	3	51.4	6	5.3	5.7	15.4	13	2
TIMKEN	519.5	11	1674.2	17	19.0	33	84.5	98	3.7	3.1	14.0	12	3.
TYCO INTERNATIONAL (6)	1216.2	15	3599.0	15	65.7	23	202.2	29	5.4	5.1	14.0	21	3.
VARITY (11)	572.4	14	1807.3	22	32.7	44	103.0	47	5.7	4.5	16.2	13	3.
(D) TEXTILES													
GROUP COMPOSITE	**3253.1**	**7**	**9457.6**	**8**	**83.2**	**–29**	**273.4**	**–4**	**2.6**	**3.9**	**16.0**	**15**	**1.**
COLLINS & AIKMAN (11)	352.8	–2	1127.1	3	15.4	111	69.0	NM	4.4	2.0	NM	6	1
CONE MILLS	231.7	14	690.9	15	5.9	31	8.6	–70	2.5	4.2	7.0	25	0.
FIELDCREST CANNON	280.5	0	810.6	6	–0.0	NM	2.0	–90	NM	3.0	3.3	22	0.
INTERFACE	203.3	10	597.4	13	5.3	25	14.4	34	2.6	2.3	7.8	16	1.
MOHAWK INDUSTRIES	425.3	13	1233.5	15	6.6	–50	16.6	–35	1.6	3.5	8.5	23	0.
SHAW INDUSTRIES	748.4	2	2163.2	4	21.9	–34	45.1	–56	2.9	4.5	10.6	24	0.
SPRINGS INDUSTRIES	623.7	17	1639.5	7	21.3	9	45.6	18	3.4	3.7	9.9	11	3.
UNIFI (6)	387.4	8	1195.4	12	6.8	–70	72.1	31	1.7	6.3	17.1	17	1.
16 METALS & MINING													
INDUSTRY COMPOSITE	**22595.7**	**15**	**67526.5**	**19**	**1173.0**	**46**	**4343.8**	**166**	**5.2**	**4.1**	**20.2**	**10**	**2.**
(A) ALUMINUM													
GROUP COMPOSITE	**7061.8**	**22**	**20474.7**	**25**	**404.6**	**280**	**1211.6**	**NM**	**5.7**	**1.8**	**21.3**	**9**	**4.**
ALUMAX	767.7	10	2187.5	10	43.0	326	192.6	NM	5.6	1.4	17.1	6	5.
ALUMINUM CO. OF AMERICA	3264.8	27	9391.9	29	226.4	223	639.6	752	6.9	2.7	23.9	9	5.
KAISER ALUMINUM	550.3	19	1646.7	23	12.5	NM	39.3	NM	2.3	NM	–27.4	NM	–0.
MAXXAM	638.0	17	1892.6	20	10.7	NM	35.1	NM	1.7	NM	NM	30	1.
REYNOLDS METALS	1841.0	20	5356.0	26	112.0	81	305.0	475	6.1	4.0	16.2	10	5.
(B) STEEL													
GROUP COMPOSITE	**11402.1**	**6**	**34992.1**	**11**	**537.7**	**7**	**1872.3**	**61**	**4.7**	**4.7**	**22.4**	**8**	**2.**
AK STEEL HOLDING	524.3	5	1730.6	18	67.2	63	213.9	148	12.8	8.2	65.2	2	14
ALLEGHENY LUDLUM	373.6	42	1159.4	55	30.1	192	93.4	NM	8.1	3.9	29.3	11	1.
ARMCO	404.1	10	1163.1	6	–2.1	NM	31.9	–47	NM	6.2	NM	28	0.
BETHLEHEM STEEL	1224.7	–1	3715.6	3	34.4	234	147.2	199	2.8	0.8	11.0	11	1
BIRMINGHAM STEEL (6)	207.3	-6	669.0	3	8.2	–33	34.3	30	3.9	5.5	10.1	10	1
CARPENTER TECHNOLOGY (6)	184.5	18	613.5	21	11.9	141	44.6	35	6.5	3.2	20.3	12	3.
COMMERCIAL METALS (4)	595.9**	33	1703.0	33	10.2	13	31.8	56	1.7	2.0	12.6	10	2.
INLAND STEEL INDUSTRIES	1128.5	0	3659.7	10	20.0	–35	121.9	71	1.8	2.7	18.2	8	2.
J&L SPECIALTY STEEL	221.0	18	704.1	32	22.6	34	71.9	82	10.2	9.0	23.2	8	2.
LTV	1040.2	–1	3238.3	4	43.2	27	150.0	69	4.2	3.2	13.7	8	1.
LUKENS	254.7	10	786.4	13	8.7	18	27.3	139	3.4	3.2	12.7	12	2.
NATIONAL STEEL	724.8	6	2214.1	13	15.6	–75	90.6	–36	2.2	9.1	21.7	5	2.
NORTHWESTERN STEEL & WIRE (5)	172.5	10	484.9	8	17.1	397	22.7	236	9.9	2.2	44.4	8	1.
NUCOR	860.5	9	2582.4	19	63.0	–2	200.2	34	7.3	8.2	22.2	15	3
OREGON STEEL MILLS	188.5	–2	526.6	–19	2.0	NM	9.6	45	1.0	NM	5.4	20	0
QUANEX (2)	228.2	26	662.4	32	9.6	66	24.1	113	4.2	3.2	16.1	10	1.
ROUGE STEEL	282.6	2	901.4	3	33.6	19	84.9	11	11.9	9.8	32.8	4	5
USX–U. S. STEEL GROUP	1609.0	7	4809.0	9	85.0	-6	240.0	116	5.3	6.0	33.3	8	3
WCI STEEL (2)	170.7	7	523.6	1	9.4	31	31.4	59	5.5	3.9	56.3	4	1
WEIRTON STEEL	341.4	15	1015.2	6	7.2	NM	52.2	203	2.1	NM	49.6	3	1
WHX	339.4	10	1029.9	19	19.3	3	63.7	-6	5.7	6.0	8.0	5	2
WORTHINGTON INDUSTRIES (7)	325.7	6	1099.8	5	21.5	–15	84.5	19	6.6	7.4	18.7	14	1
(C) OTHER METALS													
GROUP COMPOSITE	**4131.7**	**33**	**12059.8**	**39**	**230.7**	**19**	**1259.9**	**152**	**5.6**	**6.2**	**16.6**	**13**	**2.**
ASARCO	819.7	60	2398.2	66	58.3	NM	180.4	NM	7.1	NM	13.0	6	5
CYPRUS AMAX MINERALS	786.0	2	2468.0	20	–203.0	NM	28.0	–72	NM	6.2	3.1	32	0
FREEPORT-McMORAN	243.1	28	730.9	30	0.6	NM	10.1	NM	0.3	NM	NM	NM	–0
FREEPORT-McMORAN COPPER & GOLD	469.8	50	1300.1	51	74.1	176	185.7	148	15.8	8.6	44.4	27	0

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CORPORATE SCOREBOARD

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MAGMA COPPER	392.6	73	1051.7	69	51.9	132	158.1	213	13.2	9.8	20.8	5	3
MUELLER INDUSTRIES	171.5	24	524.7	33	11.6	36	32.3	75	6.8	6.2	16.0	18	1
NEWMONT MINING	172.3	15	451.8	3	25.3	24	108.6	83	14.7	13.6	15.3	31	1
PHELPS DODGE	1076.7	32	3134.4	37	211.8	125	556.6	168	19.7	11.6	24.1	7	8
17 NONBANK FINANCIAL													
INDUSTRY COMPOSITE	78719.9	17	219786.3	16	6807.1	41	17194.5	26	8.6	7.2	13.8	14	3
(A) FINANCIAL SERVICES													
GROUP COMPOSITE	42556.1	21	114969.0	19	3706.1	45	9152.9	16	8.7	7.4	16.1	14	3
ALEX. BROWN	210.3**	45	562.7	25	22.9	73	62.3	23	10.9	9.1	19.3	9	5
ALEXANDER & ALEXANDER SERVICES	299.7	–10	952.0	–4	17.5	NM	81.9	NM	5.8	0.0	–13.8	NM	–1
ALLEGHANY	447.9	0	1260.1	–10	23.4	10	41.4	–24	5.2	4.7	4.7	23	7
AMERICAN EXPRESS	4054.0**	12	11792.0	13	416.0	13	1179.0	13	10.3	10.2	21.5	14	2
AT&T CAPITAL	395.9	14	1140.7	13	32.5	30	85.5	43	8.2	7.2	11.7	14	2
BEAR STEARNS (6)	1074.4	33	3192.8	29	93.8	165	266.1	45	8.7	4.4	14.3	9	2
BENEFICIAL	406.6	13	1150.5	6	60.1	17	143.6	–15	14.8	14.3	10.9	19	2
BLOCK (H&R) (8)	200.7	50	1226.0	9	5.2	NM	116.7	–33	2.6	NM	17.4	38	1
COUNTRYWIDE CREDIT INDUSTRIES (10)	361.1	57	1014.8	25	49.0	156	104.5	5	13.6	8.3	9.9	19	1
DEAN WITTER, DISCOVER	2018.6	23	5806.7	21	218.7	19	678.3	13	10.8	11.2	18.1	11	4
EDWARDS (A. G.) (10)	362.0	23	979.5	7	43.3	37	110.8	8	12.0	10.7	14.3	11	2
EQUIFAX	412.0	15	1203.6	18	38.0	23	103.3	23	9.2	8.6	34.0	21	1
FANNIE MAE	5630.4**	19	16369.2	21	604.9	11	1746.7	9	10.7	11.5	21.4	12	8
FEDERAL HOME LOAN MORTGAGE	2489.0**	39	6937.0	38	278.0	12	800.0	3	11.2	14.0	19.3	13	5
FINOVA GROUP	196.9	32	563.4	61	25.2	13	71.1	40	12.8	15.0	11.7	15	3
FIRST AMERICAN FINANCIAL	331.3**	1	885.7	–18	9.3	95	–2.3	NM	2.8	1.4	–1.8	NM	–0
FIRST FINANCIAL MANAGEMENT	818.3**	51	2284.6	50	52.0	28	131.9	26	6.4	7.5	12.1	34	2
GREEN TREE FINANCIAL	174.4	38	455.8	33	72.0	38	184.5	37	41.3	41.3	27.3	18	1
LEHMAN BROTHERS HOLDINGS (1)	3453.0	36	9863.0	54	71.0	223	174.0	NA	2.1	0.9	6.4	14	1
MARSH & McLENNAN	921.6	11	2812.0	9	91.3	9	317.9	3	9.9	10.1	24.1	16	5
MERRILL LYNCH	5431.1**	20	16220.0	18	300.4	30	810.4	–5	5.5	5.1	17.6	12	4
MORGAN STANLEY GROUP (1)	2902.0	NA	NA	NA	209.0	NA	NA	NA	7.2	NA	NA	NA	
PAINEWEBBER GROUP	1379.6**	47	3945.7	35	78.2	284	22.0	–57	5.7	2.2	–1.4	NM	–0
SALLIE MAE	975.9	21	2910.1	35	81.3	–16	248.1	–24	8.3	12.0	34.9	13	4
SALOMON	2536.0**	49	6558.0	38	268.0	NM	289.0	NM	10.6	NM	1.7	64	0
SCHWAB (CHARLES)	385.5**	55	1025.1	29	47.2	51	130.0	28	12.2	12.6	28.5	25	0
TRAVELERS GROUP	4511.8	–4	13359.9	–5	481.4	45	1207.3	22	10.7	7.0	14.3	11	4
UNITED ASSET MANAGEMENT	175.9	48	498.0	40	16.5	12	48.8	11	9.4	12.4	13.0	19	2
(B) INSURANCE													
GROUP COMPOSITE	32160.3	11	95098.5	11	2611.2	38	7125.9	31	8.1	6.5	12.2	14	3
AETNA LIFE & CASUALTY	4469.2	2	13400.8	2	212.1	64	76.0	–75	4.7	2.9	3.5	34	2
AFLAC	1811.7	13	5458.2	22	88.0	16	265.7	23	4.9	4.8	15.7	13	3
ALLSTATE	5699.1	7	16943.6	7	445.7	130	1506.5	370	7.8	3.7	15.3	11	3
AMERICAN GENERAL	1673.0	32	4818.0	30	181.0	14	536.0	12	10.8	12.6	10.7	14	2
AMERICAN INTERNATIONAL GROUP	6547.0	16	19011.4	15	630.7	16	1836.6	15	9.6	9.6	13.3	18	4
AMERICAN NATIONAL INSURANCE	363.3	1	1066.7	3	44.0	–21	128.3	–12	12.1	15.6	9.5	8	7
COMMERCE GROUP	174.6	2	506.4	–4	28.8	10	80.4	–13	16.5	15.5	22.1	7	2
FREMONT GENERAL	238.5	37	690.7	42	18.3	30	49.3	18	7.7	8.1	14.8	8	3
HARTFORD STEAM BOILER	171.7	14	503.3	12	16.3	33	46.0	19	9.5	8.2	18.4	16	2
HORACE MANN EDUCATORS	183.9	2	551.4	3	19.2	–1	52.5	11	10.4	10.7	16.9	10	2
LINCOLN NATIONAL	1668.5**	22	4798.4	6	154.3	164	407.1	59	9.3	4.3	11.7	10	4
PAUL REVERE	367.8	9	1103.3	9	21.8	22	64.5	–17	5.9	5.3	6.2	12	1
PROGRESSIVE	775.7	22	2229.0	27	62.6	–3	184.1	6	8.1	10.2	22.4	11	3
PROVIDENT LIFE & ACCIDENT	602.7	–13	1938.8	–6	32.9	3	80.2	–24	5.5	4.6	6.9	13	2
PROVIDIAN	861.7	13	2515.7	11	88.8	3	242.6	5	10.3	11.3	11.7	13	3
ST. PAUL	1364.9	14	3963.1	12	142.4	10	366.0	14	10.4	10.8	14.5	10	5
TIG HOLDINGS	466.0**	7	1418.0	7	34.0	240	85.0	183	7.3	2.3	8.2	15	1
TORCHMARK	500.0	25	1600.0	14	61.0	–6	205.0	0	12.2	16.3	17.2	12	3
TRANSAMERICA	1581.2	15	4582.7	15	147.0	40	361.1	15	9.3	7.6	12.4	11	6
UNITRIN	354.7	1	1066.9	4	40.0	–20	112.8	9	11.3	14.3	10.3	13	3
UNUM	967.6	9	3078.8	15	66.7	NM	219.0	117	6.9	NM	13.4	14	3
USF&G	885.0	6	2559.0	5	49.0	–35	144.0	–17	5.5	9.0	12.0	11	1
USLIFE	432.6	5	1294.6	5	26.6	4	77.1	5	6.2	6.2	8.6	10	2
(C) SAVINGS & LOAN													
GROUP COMPOSITE	4003.6	33	9718.8	26	489.8	35	915.7	213	12.2	12.1	10.2	13	2
AHMANSON (H. F.)	1510.0	83	3442.9	44	273.0	298	390.2	98	18.1	8.3	12.4	9	3
CALIFORNIA FEDERAL BANK	271.4	27	797.9	–7	31.9	–79	68.3	NM	11.8	40.0	9.6	13	1
COAST SAVINGS FINANCIAL	179.0	29	502.8	25	14.8	544	23.9	NM	8.2	1.6	5.2	27	1
GLENDALE FEDERAL BANK (6)	297.6	6	NA	NA	13.8	47	66.8	NM	4.6	3.3	NA	12	1
GOLDEN WEST FINANCIAL	642.2	34	1818.5	29	63.4	13	167.9	–8	9.9	11.7	10.1	14	1
GREAT WESTERN FINANCIAL	915.3	24	2625.0	22	68.5	20	162.5	0	7.5	7.8	8.7	15	1
TCF FINANCIAL	188.2	9	531.6	6	24.4	26	36.2	–32	13.0	11.2	10.3	19	1

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COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	3RD QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	3RD QUARTER 1995 %	3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	MCAP EARN $ BI
18 OFFICE EQUIPMENT & COMPUTERS													
INDUSTRY COMPOSITE	69458.1	18	201145.9	19	2069.1	–35	11467.7	60	3.0	5.4	16.4	25	29
(A) BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	4513.4	17	12994.4	18	108.5	–7	294.7	–18	2.4	3.0	13.0	24	1
BELL & HOWELL HOLDINGS	203.0	19	580.2	15	3.8	124	4.3	NM	1.9	1.0	NM	NM	–1
COMPUCOM SYSTEMS	347.9	13	1022.1	14	4.8	48	13.5	45	1.4	1.1	21.4	12	0
DELUXE	449.5	5	1357.6	7	29.4	–12	93.0	–8	6.5	7.8	16.2	20	1
DIEBOLD	216.0	15	619.9	12	20.5	23	54.7	20	9.5	8.9	15.2	22	2
HON INDUSTRIES	228.2	3	651.3	6	12.2	-21	32.5	–11	5.4	7.0	24.9	18	1
INTELLIGENT ELECTRONICS (11)	881.6	11	2530.4	10	5.9	NM	5.5	NM	NM	0.3	-5.1	NM	–0
MICROAGE (2)	759.1	30	2176.9	37	0.7	–79	6.0	–53	0.1	0.5	5.5	13	0
MILLER (HERMAN) (7)	293.2	16	844.3	14	12.0	51	7.0	–76	4.1	3.1	2.8	92	0
STANDARD REGISTER	227.9	20	654.9	17	11.7	14	34.5	12	5.1	5.4	11.8	14	1
TECH DATA (11)	708.8	24	2002.2	30	3.4	–64	11.1	–60	0.5	1.7	8.0	25	0
WALLACE COMPUTER SERVICES (5)	198.2	33	554.5	25	15.8	33	43.7	20	8.0	8.0	12.6	24	2
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	51538.8	16	150092.1	17	1171.6	–38	7561.9	119	2.3	4.2	15.5	18	3
AMDAHL	350.0	-4	1100.2	–3	20.1	40	66.9	97	5.7	3.9	11.4	11	0
APPLE COMPUTER (3)	3003.0	20	8230.0	22	60.0	–48	236.0	–13	2.0	4.6	15.0	10	3
COMPAQ COMPUTER	3594.0	27	10054.0	32	245.0	22	707.0	13	6.8	7.1	22.7	15	3
CONNER PERIPHERALS	687.2	23	1939.9	9	13.4	31	30.2	–54	2.0	1.8	20.2	13	1
CRAY RESEARCH	169.2	–23	440.0	–36	–13.5	NM	–200.7	NM	NM	7.3	–30.5	NM	–7
DATA GENERAL (3)	312.8	7	877.1	2	1.5	NM	–70.9	NM	0.5	NM	–17.1	NM	1
DELL COMPUTER (11)	1205.6	52	3374.2	47	65.1	128	187.1	187	5.4	3.6	26.4	19	4
DIGITAL EQUIPMENT (6)	3271.1	5	10488.4	2	48.2	NM	281.7	NM	1.5	NM	7.5	29	1
EMC	432.7	16	1288.6	36	70.9	2	228.7	32	16.4	18.7	32.8	10	1
GATEWAY 2000	888.7	38	2431.1	30	40.9	48	114.2	101	4.6	4.3	31.3	15	1
HEWLETT-PACKARD (2)	7739.0	28	22471.0	25	576.0	66	1755.0	56	7.4	5.7	19.7	21	4
INTERNATIONAL BUSINESS MACHINES	16754.0	9	50020.0	13	–538.0	NM	2467.0	38	NM	4.6	14.7	15	6
MICRON ELECTRONICS (4)	404.0	201	NA	NA	21.0	78	NA	NA	5.2	8.8	37.5	29	0
QUANTUM (9)	1064.6	47	2989.7	43	25.6	47	61.6	-58	2.4	6.7	2.2	NM	0
SEAGATE TECHNOLOGY (6)	1453.6	56	3930.5	38	108.0	379	266.3	58	7.4	2.4	22.4	10	4
SILICON GRAPHICS (6)	595.3	33	1800.5	43	58.4	29	175.3	39	9.8	10.1	17.9	24	1
STORAGE TECHNOLOGY	439.6	6	1370.5	6	–7.0	NM	–4.0	NM	NM	4.0	1.0	77	0
SUN MICROSYSTEMS (6)	1485.3	17	4648.4	20	84.7	120	320.5	84	5.7	3.0	18.9	17	4
TANDEM COMPUTERS (3)	640.0	6	1750.4	7	19.8	–72	72.3	-50	3.1	11.7	9.9	12	0
3COM (7)	430.4	64	1161.8	61	59.4	93	152.7	NM	13.8	11.7	28.2	49	1
UNISYS	1460.7	–1	4363.6	3	–32.2	NM	39.7	–55	NM	2.1	–12.0	NM	–0
WESTERN DIGITAL (6)	558.1	20	1672.5	24	8.3	76	54.4	46	1.5	7.5	21.0	8	1
XEROX	4600.0	7	13700.0	10	236.0	27	621.0	29	5.1	4.3	17.1	17	8
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	13406.0	28	38059.4	27	789.1	–33	3611.1	8	5.9	11.3	19.1	38	1
AUTOMATIC DATA PROCESSING (6)	747.1**	20	2346.0	20	81.9	19	313.1	19	11.0	11.0	19.5	26	2
BAY NETWORKS (6)	438.3	46	1166.1	37	61.4	66	161.9	56	14.0	12.4	20.7	49	1
CABLETRON SYSTEMS (10)	257.3	33	724.0	33	52.8	37	146.6	36	20.5	19.8	27.1	29	2
CERIDIAN	245.1	–1	767.2	10	25.2	33	75.9	35	10.3	7.6	36.0	26	1
CISCO SYSTEMS (5)	621.2	72	1580.0	59	143.7	60	322.2	28	23.1	24.8	30.5	50	1
COMPUSA (6)	738.7	26	2204.3	25	6.0	NM	22.4	NM	0.8	NM	12.6	25	1
COMPUTER ASSOCIATES INTERNATIONAL (9)	812.3	30	2191.8	26	–637.2	NM	–335.7	NM	NM	20.9	–10.2	NM	–0
COMPUTER SCIENCES (9)	1004.7	27	2989.5	32	30.4	32	97.3	25	3.0	2.9	10.5	30	2
ELECTRONIC DATA SYSTEMS	3109.1**	21	8856.2	24	245.7	14	669.4	14	7.9	8.4	19.7	25	1
FIRST DATA	509.8	18	1449.9	19	70.1	30	178.2	24	13.7	12.5	13.8	30	2
FISERV	176.9	23	507.6	20	13.1	27	36.3	22	7.4	7.2	9.1	27	1
GOVERNMENT TECHNOLOGY SERVICES	175.7	[illegible]	366.1	–17	1.7	–69	–3.0	NM	1.0	2.5	–11.0	NM	-
GTECH HOLDINGS (10)	184.9	10	550.2	11	16.5	37	42.3	–11	8.9	7.1	21.2	20	0
INFORMIX	180.5	55	491.9	54	25.3	52	66.5	57	14.0	14.2	25.1	46	0
INTERGRAPH	279.2	[illegible]	796.7	7	–8.0	NM	–52.5	NM	NM	NM	–14.2	NM	-
MICROSOFT (6)	2016.0	62	5224.0	38	499.0	58	1263.0	35	24.8	25.3	28.5	37	2
NOVELL (2)	537.9	10	1560.7	9	102.0	33	279.4	18	19.0	15.7	16.1	18	0
ORACLE (7)	771.8	39	2511.9	47	53.8	–12	340.2	39	7.0	11.0	33.2	43	0
SAFEGUARD SCIENTIFICS	366.3	7	1080.1	7	4.7	–38	13.0	–11	1.3	2.2	11.2	54	0
SYBASE	233.1	7	689.3	21	1.1	–95	–25.5	NM	0.5	10.4	0.7	NM	0
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	26948.1	23	77701.1	25	2359.3	222	5834.8	239	8.8	3.3	19.8	11	3
(A) FOREST PRODUCTS													
GROUP COMPOSITE	6757.8	16	19674.0	19	646.6	476	1590.1	557	9.6	1.9	27.5	8	7
BOISE CASCADE	1339.1	23	3832.3	26	118.5	NM	281.4	NM	8.8	NM	25.7	7	0
GEORGIA-PACIFIC	3705.0	13	10882.0	16	324.0	272	821.0	423	8.7	2.7	32.1	8	1
POPE & TALBOT	171.5	0	503.6	1	–6.6	NM	–16.9	NM	NM	0.5	–6.2	NM	–0
RAYONIER	333.9	17	933.3	17	57.0	247	108.5	108	17.1	5.7	18.2	9	2
UNIVERSAL FOREST PRODUCTS	188.8	–16	599.2	–13	3.1	62	11.9	38	1.6	0.9	17.0	12	0
WILLAMETTE INDUSTRIES	1019.4	31	2923.6	34	150.7	300	384.1	283	14.8	4.8	29.0	8	8

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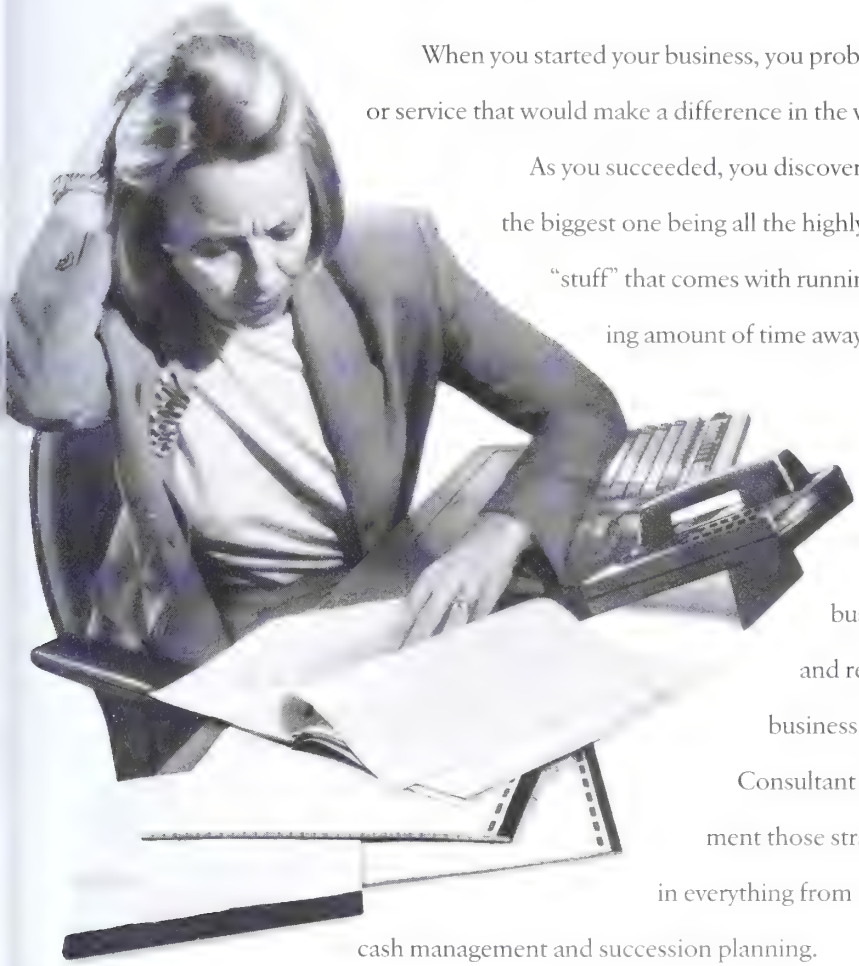

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(B) PAPER													
GROUP COMPOSITE	**20190.3**	**25**	**58027.1**	**27**	**1712.7**	**176**	**4244.7**	**187**	**8.5**	**3.8**	**17.9**	**13**	**3.**
BOWATER	520.9	50	1457.2	49	58.1	452	163.0	NM	11.2	3.0	21.3	11	4
CHAMPION INTERNATIONAL	1840.7	33	5231.1	36	235.6	919	554.3	NM	12.8	1.7	20.4	8	6
CHESAPEAKE	330.8	24	937.0	31	29.9	108	69.2	225	9.0	5.4	20.1	9	3
CONSOLIDATED PAPERS	480.9	76	1126 4	52	67.0	244	156.2	169	13.9	7.1	17.7	14	4
FORT HOWARD	426.1	25	1205.6	30	14.5	NM	12.6	NM	3.4	0.1	NM	NM	–3
INTERNATIONAL PAPER	5100.0	34	14700.0	36	328.0	196	890.0	220	6.4	2.9	14.6	9	4
JAMES RIVER CORP. OF VIRGINIA	1750.2	21	5199.5	39	36.3	NM	100.2	NM	2.1	NM	1.5	NM	0
KIMBERLY-CLARK	2212.3	20	6378.9	17	208.6	47	480.6	12	9.4	7.7	21.4	19	3
MANVILLE	705.3	3	2067.2	12	83.6	189	146.4	157	11.9	4.3	13.7	12	1
MEAD	1352.4	12	4035.4	19	104.5	151	268.4	163	7.7	3.4	11.9	12	4
POTLATCH	411.2	10	1203.0	11	31.7	196	79.2	258	7.7	2.9	11.2	12	3
SCOTT PAPER	1093.4	25	3154.2	20	155.4	185	397.8	198	14.2	6.2	27.4	15	3
WESTVACO (2)	854.6	33	2400.9	30	80.2	297	194.5	272	9.4	3.1	12.2	12	2
WEYERHAEUSER	3111.6	16	8930.6	17	279.3	93	732.3	83	9.0	5.4	20.4	10	4
20 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	**12481.0**	**6**	**36696.4**	**7**	**444.5**	**–50**	**1889.4**	**–21**	**3.6**	**7.6**	**14.1**	**32**	**1**
(A) BROADCASTING													
GROUP COMPOSITE	**2577.9**	**7**	**8129.8**	**4**	**118.8**	**–5**	**363.7**	**–27**	**4.6**	**5.2**	**17.5**	**49**	**2**
CABLEVISION SYSTEMS	278.2	24	787.3	33	–41.7	NM	–237.1	NM	NM	NM	NM	NM	-16
CAPITAL CITIES/ABC	1566.5	7	4822.0	9	127.0	–5	493.7	12	8.1	9.1	16.5	25	4
CBS	733.2	1	2520.5	–12	33.4	–43	107.1	–55	4.6	8.0	34.7	35	2
(B) PUBLISHING													
GROUP COMPOSITE	**9903.2**	**6**	**28566.5**	**8**	**325.7**	**–58**	**1525.7**	**–20**	**3.3**	**8.2**	**13.5**	**28**	**1**
BELO (A. H.)	182.5	14	535.3	20	12.8	–19	45.4	0	7.0	9.9	17.8	20	1
DOW JONES	549.3	10	1671.7	10	33.8	0	129.6	5	6.2	6.7	12.4	18	1
DUN & BRADSTREET	1333.5	11	3860.5	11	171.5	3	426.5	2	12.9	13.9	46.7	16	3
GANNETT	932.3	0	2860.0	3	96.1	–9	321.7	2	10.3	11.3	23.9	16	3
HOUGHTON MIFFLIN	267.9	16	423.1	7	68.1	43	44.5	–25	25.4	20.7	17.4	16	2
KNIGHT-RIDDER	638.0	–1	2000.0	3	6.6	–82	136.4	16	1.0	5.8	17.0	16	3
McGRAW-HILL	904.4	6	2185.7	6	105.8	17	172.6	13	11.7	10.5	24.4	18	4
MEDIA GENERAL	168.5	9	507.1	10	8.8	10	34.7	–67	5.3	5.2	13.2	18	1
MEREDITH (6)	207.7	11	677.2	13	9.5	–23	29.8	22	4.6	6.6	16.0	28	1
NEW YORK TIMES	572.7	9	1754.3	0	32.2	–73	102.8	–40	5.6	22.9	9.3	20	1
SCRIPPS (E. W.)	315.8	7	957.2	8	27.6	6	92.9	–6	8.8	8.8	10.3	24	1
TIME WARNER	1981.0	5	5705.0	12	–102.0	NM	–157.0	NM	NM	NM	–11.6	NM	–0
TIMES MIRROR	864.8	1	2481.5	3	–242.9	NM	–197.4	NM	NM	4.7	–10.7	NM	–1
TRIBUNE	567.0	11	1691.6	8	55.9	17	206.0	19	9.9	9.3	20.3	16	3
WASHINGTON POST	417.9	5	1256.5	8	41.8	–12	137.2	17	10.0	11.9	16.8	18	16
21 SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	**29690.6**	**16**	**85796.1**	**16**	**1294.6**	**31**	**3635.2**	**23**	**4.4**	**3.8**	**15.7**	**19**	**1**
(A) CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	**3662.4**	**20**	**10316.0**	**12**	**97.4**	**821**	**260.2**	**134**	**2.7**	**0.3**	**13.5**	**20**	**1**
APOGEE ENTERPRISES (10)	222.2	19	646.6	19	5.6	31	11.5	192	2.5	2.3	12.3	13	1
BDM INTERNATIONAL	215.9	10	620.9	16	5.3	71	12.5	39	2.5	1.6	34.4	17	1
BUTLER MFG.	206.6	9	608.3	26	7.7	16	17.5	69	3.7	3.5	23.4	10	2
EG&G	361.6	7	1042.1	5	13.7	NM	35.4	NM	3.8	NM	9.8	23	0
FLUOR (2)	2436.8	24	6725.8	10	60.2	25	165.8	18	2.5	2.5	16.0	22	2
STONE & WEBSTER	219.2	13	672.4	17	5.0	–4	17.6	NM	2.3	2.7	4.5	23	1
(B) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	**11135.0**	**14**	**32827.2**	**15**	**452.9**	**37**	**1379.4**	**27**	**4.1**	**3.4**	**15.0**	**17**	**2**
ARROW ELECTRONICS	1459.6	26	4358.2	28	51.0	134	147.6	68	3.5	1.9	16.8	14	3
AVNET (6)	1189.1	25	3496.0	26	44.5	54	124.8	50	3.7	3.0	11.3	13	3
BEARINGS (6)	273.5	10	830.8	13	4.4	45	14.9	36	1.6	1.2	11.0	15	2
BOISE CASCADE OFFICE PRODUCTS	332.0	35	941.0	45	12.5	68	28.4	39	3.8	3.0	11.7	NA	A
CELLSTAR (1)	198.3	43	566.9	66	6.2	38	16.5	51	3.1	3.3	20.6	22	1
CHEMED	177.6	7	524.8	9	5.7	78	16.4	51	3.2	1.9	10.3	18	2
CRANE	453.3	1	1337.4	10	22.0	38	55.4	42	4.9	3.5	20.2	14	2
ENRON	2185.7	8	6639.0	4	100.6	5	389.6	13	4.6	4.7	16.4	18	1
GENUINE PARTS	1362.5	7	3952.4	8	77.0	6	220.9	7	5.6	5.8	19.0	16	2
GETTY PETROLEUM (11)	184.6	3	583.1	9	2.5	NM	10.5	134	1.4	NM	13.2	13	1
GRAINGER (W. W.)	850.0	9	2470.3	10	49.1	14	135.5	7	5.8	5.5	12.4	23	2
HUGHES SUPPLY (11)	260.5	29	699.6	26	4.2	41	9.6	43	1.6	1.5	8.7	13	2
KAMAN	226.0**	13	657.9	9	4.6	–7	14.8	8	2.0	2.5	–10.4	NM	–0
MARSHALL INDUSTRIES (7)	275.9	24	818.3	27	12.2	40	34.5	34	4.4	3.9	15.0	14	2
PIONEER-STANDARD ELECTRONICS (9)	234.9	21	701.1	30	6.7	19	20.8	21	2.9	2.9	19.2	12	1
PREMIER INDUSTRIAL (7)	213.9	8	632.4	10	28.2	11	83.7	14	13.2	12.8	23.5	19	1
REXEL	282.3	2	849.8	8	5.7	105	14.9	102	2.0	1.0	10.5	16	0
UNIVAR (10)	531.1	7	1527.8	8	4.3	NM	12.5	NM	0.8	NM	7.1	22	0
VWR SCIENTIFIC PRODUCTS	171.0	17	462.2	16	1.3	–38	2.6	–8	0.8	1 5	1.2	NM	0
WYLE ELECTRONICS	273.5	34	778.4	37	10.1	224	25.6	200	3.7	1.5	17.7	17	2

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CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	MONTHS EARNINGS PER SHARE
(C) POLLUTION CONTROL													
GROUP COMPOSITE	**4353.1**	**13**	**12773.5**	**18**	**329.8**	**12**	**849.2**	**6**	**7.6**	**7.7**	**15.2**	**18**	**1.**
BROWNING-FERRIS INDUSTRIES (3)	1527.1	23	4486.6	33	95.9	17	295.0	31	6.3	6.6	14.1	16	1.
WMX TECHNOLOGIES	2826.0	9	8286.9	11	233.8	10	554.2	–4	8.3	8.2	15.8	18	1.
(D) PRINTING & ADVERTISING													
GROUP COMPOSITE	**2464.7**	**29**	**6818.5**	**24**	**122.0**	**17**	**324.2**	**14**	**5.0**	**5.5**	**15.7**	**21**	**1.**
ADVO (3)	267.5	16	794.9	11	7.7	12	19.8	8	2.9	3.0	23.8	19	1.
DONNELLEY (R. R.) & SONS	1704.8	37	4513.5	32	92.1	15	203.4	12	5.4	6.4	14.2	20	1.
INTERPUBLIC GROUP	492.5**	12	1510.1	11	22.2	27	101.1	20	4.5	4.0	18.5	24	1.
(E) OTHER SERVICES													
GROUP COMPOSITE	**8075.3**	**15**	**23060.9**	**17**	**292.6**	**20**	**822.1**	**24**	**3.6**	**3.5**	**18.3**	**22**	**1.**
ABM INDUSTRIES (2)	245.8**	9	712.3	9	5.0	21	12.3	20	2.0	1.8	12.3	15	1.
BORG-WARNER SECURITY	466.5	4	1396.2	5	2.4	–29	3.1	–75	0.5	0.8	8.7	54	0.
CDI	340.8	18	991.8	24	3.1	–53	18.0	20	0.9	2.3	16.0	11	1.
CINTAS (7)	170.3	20	491.8	19	16.3	18	49.5	18	9.6	9.7	17.9	31	1.
CUC INTERNATIONAL (11)	314.6	24	895.0	23	38.2	37	105.7	32	12.1	11.0	24.5	44	0.
HANDLEMAN (8)	230.8	9	897.2	18	–6.5	NM	5.2	–67	NM	0.4	6.9	14	0.
INACOM	533.3	16	1544.1	22	2.6	401	7.3	NM	0.5	0.1	6.9	10	0.
KELLY SERVICES	698.5	11	1971.6	14	20.4	6	49.3	15	2.9	3.1	14.9	14	1.
MANPOWER	1520.9	23	4091.6	35	45.0	34	91.5	60	3.0	2.7	58.2	17	1.
MID ATLANTIC MEDICAL SERVICES	243.3**	29	699.8	27	14.4	6	45.1	16	5.9	7.2	33.4	14	1.
NORRELL (2)	202.2	17	585.1	18	4.4	67	12.2	10	2.2	1.5	24.8	24	1.
OLSTEN	647.3**	10	1855.5	8	23.9	29	64.3	29	3.7	3.1	20.2	21	1.
PHH (8)	581.9	12	1622.0	3	18.3	11	55.8	12	3.1	3.2	13.2	11	4.
PINKERTON'S	197.9	0	591.7	1	2.0	8	5.0	51	1.0	0.9	–8.0	NM	–1.
SAFETY-KLEEN	197.5	8	595.3	10	11.1	–9	35.3	6	5.6	6.7	12.4	17	0.
SERVICE CORP. INTERNATIONAL	403.5	45	1105.3	38	39.1	37	127.2	32	9.7	10.3	12.5	23	1.
SERVICEMASTER	854.4	7	2414.9	8	47.8	25	126.8	23	5.6	4.8	40.9	14	2.
VOLT INFORMATION SCIENCES (2)	225.9	36	599.8	28	5.1	120	8.5	39	2.2	1.4	14.6	16	1.
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	**58657.9**	**5**	**172245.5**	**6**	**4401.5**	**–10**	**15203.1**	**5**	**7.5**	**8.8**	**18.5**	**19**	**2.**
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	**28587.1**	**8**	**83148.7**	**8**	**416.6**	**–74**	**4192.4**	**–16**	**1.5**	**6.1**	**14.2**	**26**	**1.**
AIRTOUCH COMMUNICATIONS†	407.2	28	1169.5	31	46.7	36	120.7	27	11.5	10.8	3.4	NM	0.
AT&T	19704.0	6	57478.0	6	262.0	–75	2815.0	–17	1.3	5.6	20.3	23	2.
COMSAT	203.9	2	613.8	1	–15.6	NM	21.0	–67	NM	10.7	4.3	29	0.
DSC COMMUNICATIONS	370.1	42	1048.1	52	49.4	14	143.2	31	13.3	16.6	20.4	24	1.
LCI INTERNATIONAL	173.0	45	469.2	41	13.1	25	34.6	25	7.6	8.8	7.5	NM	0.
MCI COMMUNICATIONS	3861.0	13	11128.0	12	–240.0	NM	264.0	–59	NM	6.5	4.4	42	0.
PAGING NETWORK	169.1	32	464.2	31	–10.0	NM	–33.0	NM	NM	NM	NM	NM	–0.
SPRINT	3442.3	6	10079.4	7	268.5	17	738.5	9	7.8	7.1	19.4	14	2.
TELEPHONE & DATA SYSTEMS†	256.5	33	698.6	33	42.6	142	88.4	110	16.6	9.1	6.4	24	1.
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	**30070.8**	**3**	**89096.8**	**4**	**3984.9**	**21**	**11010.8**	**17**	**13.3**	**11.3**	**21.2**	**16**	**2.**
ALLTEL	785.8	6	2335.9	8	85.3	7	262.0	15	10.9	10.8	16.5	19	1.
AMERITECH	3381.4	7	9896.0	5	512.5	104	1594.9	115	15.2	7.9	30.0	15	3.
BELL ATLANTIC	3261.1	–6	10275.3	0	604.8	119	1466.4	35	18.5	8.0	28.2	16	4.
BELLSOUTH	4432.2	6	13121.2	5	558.5	12	1662.5	4	12.6	11.9	18.0	17	4.
CINCINNATI BELL	327.1	5	992.9	10	28.7	43	–3.8	NM	8.8	6.4	3.4	NM	0.
FRONTIER	571.4	36	1537.3	24	–18.4	NM	86.3	–39	NM	11.2	13.1	30	0.
GTE	5121.0	3	14928.0	2	695.0	6	1819.0	4	13.6	13.2	23.0	16	2.
NYNEX	3238.4	–3	10088.2	2	342.9	13	833.9	40	10.6	9.1	17.8	20	2.
PACIFIC TELESIS GROUP	2275.0	–2	6760.0	–2	275.0	–12	817.0	–7	12.1	13.5	20.1	12	2.
SBC COMMUNICATIONS	3242.0	8	9108.4	8	534.3	11	1371.5	12	16.5	16.0	20.8	19	2.
SOUTHERN NEW ENGLAND TELECOMMS.	471.5**	10	1367.6	7	41.3	–13	128.1	–6	8.8	11.0	17.0	14	2.
US WEST	2964.0	7	8686.0	7	325.0	2	973.0	–4	11.0	11.5	18.0	16	2.
23 TRANSPORTATION													
INDUSTRY COMPOSITE	**40364.0**	**7**	**115780.4**	**7**	**2019.2**	**36**	**4428.0**	**80**	**5.0**	**3.9**	**12.2**	**17**	**2.**
(A) AIRLINES													
GROUP COMPOSITE	**20431.6**	**6**	**57455.5**	**5**	**970.1**	**106**	**1760.6**	**NM**	**4.7**	**2.4**	**6.1**	**21**	**1.**
ALASKA AIR GROUP	419.6	8	1076.4	8	27.4	13	18.0	–35	6.5	6.3	6.1	14	0.
AMERICA WEST AIRLINES	408.6	NA	1154.3	NA	22.7	NA	48.8	NA	5.6	NA	8.9	12	1.
AMR	4445.0	5	12722.0	5	235.0	15	465.0	32	5.3	4.8	9.5	10	6.
CONTINENTAL AIRLINES	1515.0	0	4402.0	3	111.0	262	183.0	NM	7.3	2.0	NM	NM	–13.
DELTA AIR LINES (6)	3188.0	1	9306.0	2	201.0	179	441.0	NM	6.3	2.3	18.3	10	6.
NORTHWEST AIRLINES	2561.0	11	6883.4	9	231.1	36	338.5	30	9.0	7.4	NM	11	3.
SOUTHWEST AIRLINES	765.0	12	2124.2	8	67.7	16	139.3	–12	8.9	8.6	12.2	20	1.
TOWER AIR	169.5	31	379.2	40	11.1	75	11.6	446	6.6	4.9	15.0	11	0.
TRANS WORLD AIRLINES	959.4	–3	2512.2	–5	–222.9	NM	–340.6	NM	NM	NM	NM	NM	
UAL	4127.0	8	11276.0	7	243.0	196	397.0	502	5.9	2.2	NM	8	22.
USAIR GROUP	1873.4	7	5619.8	6	43.1	NM	59.0	NM	2.3	NM	NM	NM	–5.

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Why Chevron U.S.A. Production Company Relies on the SAS System

Chevron

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One team, in CUSA Production's Western Business Unit, is tracking the profitability of individual wells. "It's a tremendously difficult task to optimize our field operations for maximum profitability," says Alameda. "With the SAS System, we can integrate large amounts of data and build a picture to compare one field against another and challenge our asset teams to identify and share best operating practices."

Reaching for the Best

Alameda looks forward to extending the use of the metrics and performance monitoring data to employees trying to improve their work processes. He admits his vision is far reaching, but so is the SAS System. "Our challenge is to be better than the best," he concludes, "and the SAS System is helping us reach that goal."

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	9 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	3RD QUARTER 1995 %	3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20	MONTHS EARNINGS PER SHARE
(B) RAILROADS													
GROUP COMPOSITE	**9002.5**	**9**	**25951.7**	**8**	**802.1**	**9**	**1982.5**	**5**	**8.9**	**8.9**	**15.0**	**15**	**4.**
BURLINGTON NORTHERN SANTA FE	1460.0	17	4091.0	12	139.0	21	377.0	33	9.5	9.2	24.3	14	5.
CONRAIL	923.0	–3	2735.0	0	116.0	9	294.0	68	12.6	11.2	14.1	13	5.
CSX	2665.0	8	7733.0	9	202.0	14	342.0	–17	7.6	7.2	14.6	15	5.
NORFOLK SOUTHERN	1183.9**	1	3512.8	3	183.9	9	535.8	9	15.5	14.4	14.9	14	5.
SOUTHERN PACIFIC RAIL	796.6	–1	2367.9	0	1.2	–96	–6.3	NM	0.2	4.2	13.7	26	0.
UNION PACIFIC	1974.0	22	5512.0	14	160.0	19	440.0	5	8.1	8.3	12.6	14	4.
(C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	**5626.7**	**9**	**16697.3**	**12**	**166.4**	**1**	**520.5**	**15**	**3.0**	**3.2**	**12.1**	**14**	**2.**
AIRBORNE FREIGHT	560.6	14	1636.4	14	7.7	–5	11.8	–58	1.4	1.7	5.7	23	1
AMTRAN	194.4	25	550.4	25	3.6	31	12.3	31	1.8	1.8	8.3	21	0.
AVIALL	214.1	0	647.5	3	4.4	32	8.5	47	2.1	1.6	3.7	13	0.
FEDERAL EXPRESS (7)	2453.4	10	7255.6	10	75.3	23	225.6	30	3.1	2.7	13.4	15	5.
GATX	311.7**	4	914.1	8	26.5	5	82.1	24	8.5	8.5	13.5	11	4.
RYDER SYSTEM	1264.0	6	3822.0	11	20.9	–50	99.0	–14	1.7	3.5	11.6	14	1
TRINITY INDUSTRIES (9)	628.5	13	1871.4	21	27.9	26	81.1	45	4.4	4.0	14.9	12	2.
(D) TRUCKING & SHIPPING													
GROUP COMPOSITE	**5303.3**	**5**	**15675.9**	**11**	**80.5**	**–22**	**164.5**	**28**	**1.5**	**2.0**	**5.2**	**44**	**0.**
ALEXANDER & BALDWIN	246.3**	–13	762.3	–5	10.3	–6	19.8	–55	4.2	3.9	6.7	25	0
AMERICAN PRESIDENT	711.1**	6	2126.1	5	30.9	37	46.2	–11	4.3	3.4	11.3	12	2
CONSOLIDATED FREIGHTWAYS	1322.8	7	3939.5	16	15.5	–24	61.9	52	1.2	1.6	9.8	14	1
GREYHOUND LINES	198.9	7	492.1	5	15.3	NM	–13.3	NM	7.7	NM	–48.3	NM	2
HUNT (J. B.) TRANSPORT SERVICES	355.1	13	993.8	13	1.8	–85	4.6	–84	0.5	3.9	4.1	38	0
LANDSTAR SYSTEM	298.7	21	902.5	28	7.2	0	19.8	16	2.4	2.9	23.4	12	2
ROADWAY SERVICES	1108.4	2	3292.8	8	2.3	–80	6.2	6	0.2	1.1	2.0	88	0
TNT FREIGHTWAYS	290.0	6	856.1	15	8.7	–31	26.6	16	3.0	4.6	16.8	11	1
YELLOW	772.0	0	2310.8	10	–11.6	NM	–7.4	NM	NM	1.7	0.8	97	0
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	**49626.0**	**7**	**135026.1**	**2**	**6617.9**	**7**	**15319.7**	**8**	**13.3**	**13.3**	**11.4**	**13**	**2.**
(A) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	**46793.4**	**6**	**125767.3**	**2**	**6449.5**	**6**	**14645.5**	**7**	**13.8**	**13.8**	**11.4**	**13**	**2.**
AES	174.1	28	512.1	29	27.3	7	78.6	9	15.7	18.7	22.9	15	1
ALLEGHENY POWER SYSTEM	672.1	14	1975.2	7	63.4	15	192.8	7	9.4	9.3	11.1	14	1
AMERICAN ELECTRIC POWER	1523.0	10	4244.5	1	168.3	9	440.7	1	11.0	11.1	11.8	14	2
BALTIMORE GAS & ELECTRIC	848.8	13	2209.1	2	163.3	29	285.1	3	19.2	16.8	10.8	14	1
CAROLINA POWER & LIGHT	875.5	9	2285.7	2	151.9	26	305.9	14	17.4	14.9	13.1	14	2
CENTERIOR ENERGY	739.6	11	1934.1	5	124.3	15	237.6	9	16.8	16.3	12.0	7	1
CENTRAL & SOUTH WEST	1087.0	2	2666.0	6	203.0	7	354.0	3	18.7	17.7	13.2	13	2
CENTRAL MAINE POWER	217.9	–7	683.8	0	10.4	–26	28.2	–31	4.8	6.0	–9.5	NM	1
CIPSCO	243.9	13	638.3	–1	42.7	22	70.1	0	17.5	16.3	13.1	15	2
CONSOLIDATED EDISON CO. OF N. Y.	1879.9	3	5008.5	2	333.3	–2	610.7	–1	17.7	18.7	13.0	10	2
DETROIT EDISON	1032.3	9	2768.5	2	148.0	19	353.0	9	14.3	13.2	12.4	12	2
DOMINION RESOURCES	1345.0	11	3517.1	1	209.6	22	419.6	–11	15.6	14.2	9.1	17	2
DPL	303.7	13	933.5	3	39.7	7	135.5	3	13.1	13.9	14.4	15	1
DQE	352.8	5	939.8	0	57.1	14	137.1	11	16.2	14.9	13.2	12	2
DUKE POWER	1380.0	8	3543.4	3	285.2	17	624.0	14	20.7	19.2	14.4	14	3
ENTERGY	1937.5	7	4855.6	1	282.2	73	540.1	29	14.6	9.1	7.3	13	2
FLORIDA PROGRESS	862.6	14	2308.7	11	93.5	19	200.2	15	10.8	10.4	11.9	14	2
FPL GROUP	1587.0	5	4231.1	2	250.3	8	508.2	8	15.8	15.4	13.1	13	3
GENERAL PUBLIC UTILITIES	1095.1	10	2873.7	2	244.3	104	399.7	211	22.3	12.0	16.1	9	3
HAWAIIAN ELECTRIC INDUSTRIES	336.9	6	963.1	11	26.9	10	67.1	17	8.0	7.7	11.8	14	2
IES INDUSTRIES	238.5	15	634.3	8	31.3	11	51.1	–7	13.1	13.6	10.7	12	2
ILLINOVA	486.1	13	1255.9	3	95.7	23	167.4	14	19.7	18.1	11.7	12	2
KANSAS CITY POWER & LIGHT	277.7	9	681.9	1	57.7	15	99.2	17	20.8	19.7	13.3	14	1
KU ENERGY	194.4	24	516.3	8	25.1	8	55.5	–13	12.9	14.8	11.0	17	1
LONG ISLAND LIGHTING	875.8	–4	2320.8	–4	131.2	–22	242.9	–8	15.0	18.5	9.6	9	1
MIDAMERICAN ENERGY	426.2	12	1405.2	–2	38.1	–10	102.3	–11	8.9	11.0	9.4	14	1
MONTANA POWER	217.5	–7	685.4	–4	16.2	–12	58.1	–15	7.4	7.8	10.0	13	1
NEVADA POWER	280.1	4	598.7	–2	53.1	5	71.0	–9	18.9	18.8	9.7	14	1
NEW ENGLAND ELECTRIC SYSTEM	599.1	1	1691.0	0	76.0	25	161.5	–4	12.7	10.3	12.2	13	2
NEW YORK STATE ELECTRIC & GAS	464.7	7	1476.5	7	43.5	41	143.7	12	9.4	7.2	10.8	10	2
NIPSCO INDUSTRIES	370.4	11	1253.3	0	38.6	24	130.5	6	10.4	9.3	15.2	14	2
NORTHEAST UTILITIES	985.1	7	2770.1	1	97.9	29	249.0	–2	9.9	8.2	12.0	11	2
NORTHERN STATES POWER	665.0	9	1915.8	2	88.8	17	216.8	11	13.4	12.4	13.0	13	3
OHIO EDISON	667.0	9	1848.6	3	94.2	5	245.3	5	14.1	14.6	12.5	12	2
ORANGE & ROCKLAND UTILITIES	231.9	–3	789.1	4	14.8	–10	33.8	0	6.4	6.8	9.2	14	2
PACIFIC GAS & ELECTRIC	2645.2	–7	7400.3	–5	377.6	–11	1111.8	23	14.3	14.9	13.3	11	2
PECO ENERGY	1125.2	8	3142.4	1	189.3	634	504.9	68	16.8	2.5	13.4	11	2
PINNACLE WEST CAPITAL	558.8	1	1298.1	–2	119.3	19	195.7	6	21.3	18.0	12.1	11	2
PORTLAND GENERAL	222.6	4	701.7	1	16.6	15	52.0	–32	7.5	6.8	8.0	20	1
PP&L RESOURCES	682.2	3	2018.9	–3	94.1	22	254.0	4	13.8	11.6	9.0	16	1

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CORPORATE SCOREBOARD

COMPANY	SALES 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 3RD QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 9 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 3RD QUARTER 1995 %	MARGINS 3RD QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-20
PUBLIC SERVICE CO. OF COLORADO	468.5	8	1587.7	4	45.8	–7	127.7	7	9.8	11.4	12.8	13
PUBLIC SERVICE CO. OF NEW MEXICO	195.6	11	617.4	–10	29.0	33	70.6	8	14.8	10.0	11.9	9
PUBLIC SERVICE ENTERPRISE GROUP	1492.1	8	4497.2	1	199.0	1	546.6	5	13.3	14.3	12.0	11
PUGET SOUND POWER & LIGHT	248.6	–6	848.5	–1	19.0	27	90.6	14	7.7	5.6	9.8	13
ROCHESTER GAS & ELECTRIC	245.2	7	745.7	–2	26.9	448	72.3	48	11.0	2.1	11.9	10
SAN DIEGO GAS & ELECTRIC	478.7	0	1401.9	0	61.8	3	179.1	21	12.9	12.6	15.3	12
SCANA	373.5	3	1029.4	2	69.5	282	139.2	35	18.6	5.0	11.3	17
SCECORP	2670.0	0	6352.9	1	298.9	6	635.9	10	11.2	10.6	11.8	11
SOUTHERN	2758.4	16	6871.0	8	491.4	12	1010.0	15	17.8	18.4	13.3	14
SOUTHWESTERN PUBLIC SERVICE (4)	259.8	2	646.9	1	53.2	37	98.3	29	20.5	15.3	16.6	12
TECO ENERGY	389.1	6	1057.9	3	64.1	16	148.8	12	16.5	15.1	15.2	17
TEXAS UTILITIES	1775.7	4	4373.9	–2	–420.5	NM	–151.9	NM	NM	18.7	–2.9	NM
TUCSON ELECTRIC POWER	217.8	–1	522.8	–3	60.7	49	48.8	60	27.9	18.5	NM	13
UNICOM	2190.9	18	5328.5	11	424.3	51	655.5	102	19.4	15.1	12.5	10
UNION ELECTRIC	713.7	5	1674.4	2	172.6	4	286.9	–5	24.2	24.6	13.0	14
UNITED ILLUMINATING	200.3	9	529.1	5	26.5	3	45.8	1	13.2	14.0	10.9	11
WESTERN RESOURCES	423.9	12	1174.8	–7	71.9	25	135.2	–12	17.0	15.2	10.5	13
WHEELABRATOR TECHNOLOGIES	356.0	6	1099.2	17	51.4	4	148.0	7	14.4	14.8	13.1	14
WISCONSIN ENERGY	426.4	6	1302.6	–1	58.7	13	173.5	46	13.8	12.9	13.1	14
WPL HOLDINGS	201.4	1	609.5	–2	21.5	33	49.8	–9	10.7	8.1	10.2	15
(B) GAS, OIL & TRANSMISSION GROUP COMPOSITE	**2832.6**	**16**	**9258.9**	**13**	**168.5**	**69**	**674.2**	**31**	**5.9**	**4.1**	**10.7**	**15**
EL PASO NATURAL GAS	240.2	15	629.5	–2	20.3	–4	62.5	–6	8.4	10.1	12.3	11
MCN	213.2**	4	1044.3	–8	–8.6	NM	60.1	5	NM	NM	11.6	17
ONEOK (4)	191.8	48	783.6	27	–2.3	NM	35.0	23	NM	NM	10.6	15
PANHANDLE EASTERN	1133.7	1	3649.1	7	73.6	44	225.2	31	6.5	4.5	13.1	15
UTILICORP UNITED	341.4	8	1133.7	1	17.0	18	56.4	–7	5.0	4.6	9.6	15
WILLIAMS	712.4	52	2018.7	58	68.5	113	235.0	80	9.6	6.9	8.9	16

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&E 10c
Abbott Laboratories 12d
ABM Industries 21e
ACX Technologies 7b
Advanced Micro 9d
ADVO 21d
AES 24a
Aetna Life & Casualty 17b
AFLAC 17b
AGCO 15c
Ahmanson (H.F.) 17c
Air Products & Chemicals 4
Airborne Freight 23c
AirTouch Communications 22a
AK Steel Holding 16b
Alaska Air Group 23a
Albemarle 4
Albertsons 6d
Albertson's 10c
Alco Standard 5
Alcoa 16a
Alex Brown 17a
Alexander & Alexander 17a
Alexander & Baldwin 23d
Alleghany 17a
Allegheny Ludlum 16b
Allegheny Power 24a
Allegiance 12b
AlliedSignal 5
Allstate 17b
Alltel 22b
Alumax 16a
AMC Entertainment 14b
Amdahl 18b
Amerada Hess 11a
America West 23a
American Brands 6e
American Electric 24a
American Express 17a
American General 17b
American Greetings 14d
American Home 12b
American Intl. Group 17b
American National 17b
American President 23d
American Standard 13a
American Stores 10c
Ameritech 22b
Ames Dept. Stores 8
Ametek 9a
Amgen 12b
Amoco 11a
AMP 9d
Amphenol 9d
AMR 23a
Amtran 23c
Analog Devices 9d
Anheuser-Busch 6c
AnnTaylor Stores 8
Apache 11a
Apogee Enterprises 21a
Apple Computer 18b
Applied Materials 15c
Arbor Drugs 12a
Arcadian 4
Arco Chemical 4
Armco 16b
Armstrong World 6b
Arrow Electronics 21b
Arvin Industries 2b
Asarco 16c
Ashland 11a
AT&T 22a
AT&T Capital 17a
Atlantic Richfield 11a
Atmel 9d
Automatic Data 18c
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Avery Dennison 15a
Avialt 23c
Avnet 21b
Avon Products 6d

B

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Baltimore G&E 24a
Banc One 3b
Bancorp Hawaii 3d
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
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BanPonce 3c
Bard (C.R.) 12d
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Baxter International 12d
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Bearings 21b
Beckman Instruments 9c
Bell & Howell Holdings 18a
Bell Atlantic 22b
BellSouth 22b
Belo (A.H.) 20b
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Best Buy 6b
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Bethlehem Steel 16b
Betz Laboratories 4
Beverly Enterprises 12c
Bindley Western Inds. 12a
Birmingham Steel 16b
Black & Decker 15b
Block (H&R) 17a
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Bob Evans Farms 14a
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Boise Cascade Office Prods. 21b
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Borg Warner Security 21e
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Bowater 19b
Boyd Gaming 14b
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Brinker International 14a
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Brown-Forman 6c
Browning-Ferris 21c
Brunswick 14d
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C

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Cablevision Systems 20a
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California Federal Bank 17c
Campbell Soup 10b
Capital Cities/ABC 20a
Cardinal Health 12a
Carlisle 15a
Carnival 14d
Carolina Power 24a
Carpenter Technology 16b
Carson Pirie Scott 8
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Casey's General Stores 10c
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CellStar 21b
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Central & South West 24a
Central Maine Power 24a
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Champion Enterprises 13b
Champion Intl. 19b
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Chemed 21b
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Chesapeake 19b
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Chrysler 2a
Cincinnati Bell 22b
Cintas 21e
Cipsco 24a
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Circuit City Stores 6b
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Cirrus Logic 9d
Cisco Systems 18c
Citicorp 3a
Clayton Homes 13b
Clorox 6d
Coast Savings 17c
Coastal 11a
Coca-Cola 6c
Coca-Cola Bottling 6c
Coca-Cola Enterprises 6c
Coleman 14d
Colgate-Palmolive 6d
Collins & Aikman 15d
Coltec Industries 15c
Comerica 3b
Commerce Group 17b
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CompUSA 18c
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ConAgra 10b
Cone Mills 15d
Conner Peripherals 18b
Conrail 23b
Consolidated Edison 24a
Cons. Freightways 23d
Consolidated Papers 19b
Consolidated Stores 8
Continental Airlines 23a
Cooper Industries 9a
Cooper Tire & Rubber 2c
Coors (Adolph) 6c
Corning 15a
Corporate Express 8
Countrywide Credit 17a
CPC International 10b
Cracker Barrel 14a
Crane 21b
Cray Research 18b
Crestar Financial 3c
Crown Cork & Seal 7a
CSX 23b
CUC International 21e
Cummins Engine 2b
Cyprus Amax Minerals 16c
Cytec Industries 4

D

Dana 2b
Danaher 15b
Darden Restaurants 14a
Data General 18b
Dayton Hudson 8
Dean Foods 10b
Dean Witter, Discover 17a
Deere 15c
Delchamps 10c
Dell Computer 18b
Delta Air Lines 23a
Deluxe 18a
Detroit Diesel 2b
Detroit Edison 24a
Dexter 4
Diamond Shamrock 11a
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Donaldson 2b
Donnelley (R.R.) 21d
Dover 15c
Dow Chemical 4
Dow Jones 20b
DPL 24a
DQE 24a
Dresser Industries 15c
DSC Communs. 22a
Duke Power 24a
Dun & Bradstreet 20b
DuPont 4
Duracell International 15a

E

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Eagle-Picher Industries 2
Eastman Chemical 4
Eastman Kodak 14d
Eaton 2b
Echlin 2b
Eckerd 12a
Ecolab 6d
Edison Brothers 8
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EG&G 21a
El Paso Natural Gas 24b
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EMC 18b
Enron 21b
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Equifax 17a
Ernst Home Center 8
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F

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Family Dollar Stores 8
Fannie Mae 17a
Fay's 12a
Federal Express 23c
Federal Home Loan 17a
Federal Paper Board 7b
Federal Signal 15a
Federal Mogul 2b
Federated Dept. Stores 8
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Fieldcrest Cannon 15d
Fifth Third Bancorp 3b
Fina 11a
Fingerhut 8
Finova Group 17a
First American Finl. 17a
First Bank System 3b
First Chicago 3b
First Data 18c
First Fidelity 3a

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First Financial Mgmt 17a
First Interstate Bancorp 3d
First of America Bank 3b
First Security 3d
First Tennessee Natl 3c
First Union 3c
Firstar 3b
Fiserv 18c
Fleet Financial Group 3a
Fleetwood Ents. 14d
Fleming 10a
Florida Progress 24a
Flowers Industries 10b
Fluor 21a
FMC 15c
Food Lion 10c
Foodbrands America 10b
Ford Motor 2a
Fort Howard 19b
FPL Group 24a
Freeport-McMoRan 16c
Freeport-McMoRan C&G 16c
Fremont General 17b
Frontier 22b
Fruit of the Loom 6a
Fuller (H.B.) 4

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Gap 8
Gateway 2000 18b
GATX 23c
GenCorp 1
Genentech 12b
General Dynamics 1
General Electric 5
General Instrument 9b
General Mills 10b
General Motors 2a
General Nutrition 10c
General Public Uts 24a
General Signal 9a
Genuine Parts 21b
Geon 4
Georgia Gulf 4
Georgia-Pacific 19a
Getty Petroleum 21b
Giant Food 10c
Giddings & Lewis 15b
Gillette 6d
Glendale Federal Bank 17c
Golden West 17c
Goodrich (B F) 4
Goodyear Tire & Rubber 2c
Goulds Pumps 15c
Government Technology Svcs 18c
Grainger (W W) 21b
Great A&P 10c
Great Lakes Chemical 4
Great Western 17c
Green Tree Financial 17a
Greif Bros 7b
Greyhound Lines 23d
GTE 22b
Gtech Holdings 18c
Guidant 12d

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Harcourt General 5
Harley-Davidson 14d
Harman International 14d
Harnischfeger 15c
Harrah's Entertainment 14c
Harris 9b
Harsco 15a
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Hillenbrand 15a
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Home Depot 8
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Horace Mann 17b
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Houghton Mifflin 20b
Hovnanian Ents 13b
Hubbell 9a
Hughes Electronics 9b
Hughes Supply 21b
Hunt (J.B.) 23d
Huntington Bancshares 3b

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IBP 10b
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Johnson Controls 15a
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JP Foodservice 10a

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Kaman 21b
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Kellogg 10b
Kellwood 6a
Kelly Services 21e
Kerr-McGee 11a
KeyCorp 3b
Kimball Intl 6b
Kimberly-Clark 19b
Kmart 8
Knight-Ridder 20b
Kohl's 8
Kroger 10c
KU Energy 24a

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Laboratory Corp. of America 12c
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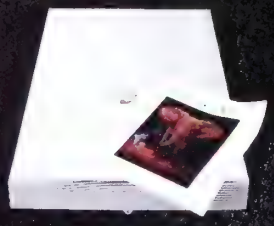

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MUTUAL FUNDS: DON'T BE DAZZLED BY FIRST-YEAR FIREWORKS

When Dean Witter Capital Growth Securities Fund returned 48% in 1991—its first year out—investors who bought in early thought they'd found the next Magellan. Its strategy made perfect sense: The fund held only stocks of high-growth companies in recession-proof sectors such as health care and consumer staples. But just one year later, it crumbled under the threat of health-care reform and an improving economy. Negative returns for the next four years sent the star fund crashing to the bottom of the growth-fund universe.

The comet effect—soar, sizzle, and burn—strikes many new equity funds, and that's precisely why investors should think twice before jumping in early. "In a majority of cases, the potential of a new fund is three parts hype and one part reality," says Michael Hirsch, chairman of M. D. Hirsch, a unit of Freedom Capital Management in New York. Fund families tend to launch their newborns around trendy themes or give them big-name managers and other benefits. But such advantages usually fade with time and asset growth. Indeed, new funds frequently fall victim to a Catch-22: The better they perform, the more money they attract. But the bigger they become, the harder it is for them to do well year after year.

Still, many investors can't resist them. Equities have been on a long bull run, and the number of new funds keeps growing—474 have been added to Morningstar Inc.'s 6,730-fund database so far this year. The temptation to invest in newbies is understandable, since 61% of all equity mutual funds are less than three years old, according to CDA/Wiesenberger, a Rockville (Md.) mutual-fund data service. In fact, nearly one-third of all money flowing into equity mutual funds in the past 12 months went to those with less than a five-year track record, says State University of New York at Buffalo finance professor Charles Trzcinka.

JUMP START. Before plowing your money into a new fund, keep in mind why first-year performance is often misleading. For starters, new funds have an inherent advantage: modest size. Small funds can move in and out of the market quickly as they discover promising new stocks or sectors. But billion-dollar behemoths are not as agile: They're forced to own more companies and more shares to achieve the same effect.

The meager asset base of new funds encourages big fund families to give them a jump start. For example, big fund groups tend to give startups higher allocations of scarce initial public offerings (IPOs). Whether the small fund holds the shares or immediately flips them back into the market for a fast profit, even the slightest price appreciation has an impressive impact on its performance. How much a new fund depends on IPO flipping for short-term gains is hard to trace. The strategy works well for small-cap funds, but for funds with less-aggressive objectives, the quick spikes in performance can mask a lack of investment prowess.

Playing to an investor theme's popularity is an way fund families job turns. Unfortunately, b time the fund debuts, the tor is often at the heig its popularity, so most money already has made. "All fund compa are guilty of giving the what it wants," says R Perkins, manager of Om vestment Fund in Chi "But too often, what it

INVESTING Early returns can mislead. New funds have an inherent advantage: Modest size

How Funds Falter After the First Year

MOST YOUNG FUNDS STUMBLE . . .

NAME/OBJECTIVE ED IN 1993)	1994 RETURN	1-YR.% RANK*	1995 RETURN	1995 % RANK*
LLI ABC T ALLOCATION	4.53%	7	8.78%	99
OLN WORLD GROWTH A RNATIONAL	4.21%	10	13.72%	96
VEST UTILITY INCOME C TY	–2.75%	11	14.32%	91
TGOMERY GROWTH -TERM GROWTH	20.94%	1	21.32%	81
OLAS EQUITY INCOME TY INCOME	4.14%	5	13.13%	96

. . . BUT IT'S NOT JUST THE ROOKIES

FUND NAME/OBJECTIVE (STARTED IN 1989)	1-YR. 1990 RETURN	1994 % RANK*	5-YR. RETURN	5-YR. % RANK*
ARMADA EQUITY RETAIL LONG-TERM GROWTH	1.29%	17	14.2%	82
FIDELITY SELECT ENVIRONMENTAL SERVICES/SPECIALTY	–2.48%	13	6.17%	96
FONTAINE CAPITAL APPRECIATION LONG-TERM GROWTH	6.13%	3	8.49%	97
MERRIMAN CAPITAL APPRECIATION LONG-TERM GROWTH	3.13%	12	9.53%	96
SMITH BARNEY PRINCIPAL RETURN 1996/BALANCED	3.25%	13	10.55%	92

ENTAGE RANK AMONG ALL FUNDS WITH THE SAME OBJECTIVE, WITH 1 BEING BEST PERFORMERS; 99 THE WORST

DATA: CDA/WIESENBERGER

sterday's winner." In it was health care and America, while 1993's of funds focused on real e. Technology is today's *du jour*. "Before you in, you have to ques- whether or not you are ng in at the bottom of ighth inning," advises eapolis money manager Markman.

at today's investors also are fund managers with rity status. Often, a fa- us manager is a posi- tive. But increasing- ly, fund families are leveraging the tal- ents of well-known managers to run two or more types of funds—and spread-

ing their skills too thin, says San Francisco money manager Ken Gregory of Litman Gregory & Co. Take the example of Jim Craig, the highly successful head of the large-cap Janus Fund, who managed the newer small-cap, Janus Venture, before conceding he had too much on his plate.

Bootstrapping, or cherry-picking, is another way to give a new fund an edge. Here's how it works: Say a fund family's research staff discovers the next Netscape Communications. The small fund buys the shares first. Then, the larger fund helps the share price along by buying it in bulk, creating a feeding frenzy on a particular holding and enhancing the performance of both the new and older funds. Some believe this creates a conflict of interest. "Many large fund families have only one trading room, so it's entirely possible that trades could be allocated in ways to benefit new funds or certain managers," Trzcinka says.

Getting first crack at a promising issue is a good way for a new fund to boost returns, though it doesn't help the shareholders of larger funds that may be second or third in line. For that reason, fund companies don't readily endorse this practice. But fund watchers say it occurs. "This Chinese wall that is supposed to be built between funds within the same family really crumbles at times," says Gerald Perritt, manager of a small fund, Perritt Capital Growth, and the author of *Mutual Funds Made Easy!* ($9.95, Dearborn Financial Publishing).

STAY FAD FREE. While new funds often enhance their initial performance, there are still times when getting in early makes sense. So if you're tempted by new issues, protect yourself by following a few basic rules. First, you stand a better chance of sustaining good results if you stick to new small-cap funds. A 1994 Value Line study shows that small-cap equity funds that start out strong continue to be top performers in their class, albeit to a lesser degree, 10 years after inception.

Second, avoid investment fads and stick with a strategy you understand. Third, know the manager. Make sure they have an established record within the fund's discipline. If the manager is new to the fund family, check out his or her experience elsewhere, either at another company or overseeing private accounts. Assessing today's crop of managers is complicated by the fact that the market has been moving steadily upward for the past five years, making almost everyone look good, says Geoff Boboroff, a mutual-fund consultant in East Greenwich, R. I.

For that reason, Hirsch only recommends new funds when they are proven concepts run by seasoned managers who stick to their speciality area. When the managers of small-cap value fund Pennsylvania Mutual introduced a similar fund, Hirsch liquidated his assets in the larger fund and bought the new one, Royce Premier. So far, he looks smart. Royce Premier's three-year annualized returns were 18%, vs. Penn Mutual's 12.4%. "The key is to find old wine in new bottles," agrees Markman, who frequently recommends the latest offerings of such well-known managers as Michael Price of the Mutual Series funds and Jean-Marie Eveillard of SoGen.

Whenever possible, look for ways to keep costs down. Fund companies sometimes waive fees or lower expenses on new funds as an incentive to draw investors. If the fund meets all of the other criteria, go for it. The extra 1.5% return will be a gift.

Ultimately, it's better to avoid new mutual funds with stratospheric early returns. Why reach for shining stars that may burn out quickly when there's a whole universe of more subdued—but proven—lights to choose from? *Kerry Capell*

AN OVERSTUFFED IRA COULD TEMPT THE TAXMAN

Pity the professionals who retire with $1.5 million or more in their individual retirement accounts. The nest egg they have so generously funded over the past two decades may be wiped out in a 1-2-3 tax punch from the Internal Revenue Service. Perhaps more accurately, pity their kids, who may find themselves forking over as much as 90% of their inheritance to Uncle Sam if Mom and Dad didn't plan correctly.

The conventional wisdom—contribute the maximum to a qualified retirement plan or IRA and let the income and gains compound tax-deferred—doesn't apply in the case of mega-IRAs. If your qualified plan is over $1.5 million by the time you are 60, think twice before pumping in more money. You may even want to withdraw funds early. "The pension assets of many professionals may represent 35% to 50% of their net worth," says Steven Lockwood, a pension attorney and president of Lockwood Pension Services in New York. "While this may be good for their retirement security, it's an estate-planning nightmare."

SMART MONEY

That's because at age 70½, you must begin taking minimum withdrawals each year based upon an IRS formula that considers life expectancy and the amount in the plan. Any distribution above $150,000 is subject to a 15% excise penalty, also known as the "success tax," on top of ordinary income tax. Unfortunately, this excise tax follows you to the grave. If there's too much left when your children or other nonspousal heirs inherit the plan, they may have to cash it in to pay all the estate, income, and excise taxes, leaving them with as little as 10% of the total.

TRIPLE THREAT. But there are a few strategies you can implement now to avoid this scenario. The larger the account grows, the more you will eventually end up paying to the IRS. "People forget that the dollars in the plan are soft dollars, so it's a deceptive amount because of the triple taxation," says Kenneth P. Brier, a tax attorney with the Boston law firm of Sherburne, Powers & Needham. So just say no to additional contributions that would take you above the $1.5 million threshold.

Another way to keep the plan from mushrooming is to realign your investments. For large IRAs, significant growth is no longer a goal; the key is to maintain a steady rate of return. You can do that by investing IRA assets in fixed-income securities while keeping equity holdings in your regular portfolio. This strategy has other benefits: Profits on any stocks bought and sold outside your IRA are taxed at the lower capital-gains rate, not as ordinary income. And when you die, the appreciation of the stocks outside the IRA is tax-free.

If your plan already is overgrown, start taking distributions after age 60 but before 70½. Even though you will be paying income taxes now, you can reduce the tax burden in the long run by pruning the plan to a that won't trigger the e tax. Lockwood cites the ample of a 63-year-old a ney with a $2 million IRA a $5 million net worth. lowing the advice of his countant, the man had contributing the maximu his law firm's qualified for 28 years. Because he other assets to live on wasn't planning to touch money unless he had to uring he would leave mo it to his kids.

SNOWBALL PLIGHT. But I wood showed him that continued to deposit $3 annually until retire without withdrawals, the would snowball to $3.5 lion by age 70½ (assumin 8% annual return). So I wood's client decided to money out early, paying in income taxes now ins of shelling out 60% in in and excise taxes later.

Then, to protect his dren's inheritance, he bo a second-to-die life-insu policy to cover future e taxes. The policy is o by an irrevocable trust, the kids as beneficiaries, exempting the death ceeds from estate tax. policy can be funded by drawals from the IRA ar making annual gifts to children.

That lawyer alone. In 10 t years, mega-IRA lems will be more common. "T the baby boo start retiring, see some very balances, especia this incredible n in the stock m continues," says vid Wray, of the cago-based P Sharing/40 Council of Am And owners of heavyweight re ment accounts s remember that more you sock the more the IRS sock it to you i end. *Kerry C*

The Incredible Shrinking IRA

Here's what can happen to a large individual retirement account inherited by your children (or nonspousal heirs) if you don't plan properly:

IRA VALUE	$2,312,831
LESS: ESTATE TAX (56.2%)*	1,299,811
INCOME TAX (27.8%)**	642,967
EXCISE TAX (6.3%)***	145,708
NET TO HEIRS	$224,345
TOTAL TAX HIT TO HEIRS	90.3%

* Varies from 55% to 60%, depending on state, for those in top tax brackets

** Ranges from 25% to 30% after deduction of federal estate taxes

*** Represents 15% of the excess accumulation in the IRA

DATA: LOCKWOOD PENSION SERVICES INC.

U OUGHTA BE IN COMPUTER GAMES?

le it's true that y of us use per- al computers just eep track of our es, catch up on work the office, or help the with schoolwork, a PC all work and no play e an awfully dull tool. es, with the power of y's multimedia PCs, ped with a Pen- or PowerPC pro- r, double speed M drive, sound and 8 mega- of memory, it's to resist playing a few minutes" nes such as Bro- nd Software's But wait until e what tempta- oftware makers hrowing your ow.

led interactive s, the new offer- nake extensive digitized video e (instead of nish animation) Hollywood pro- n techniques to a new level of realism. In games, which ared to teenagers and , the player becomes a al character in the sto- e or directs the on- action. Either way, the ns you make lead to nt plot twists and di- influence the outcome.

L FUNERAL. One of the examples is Origin ns' $50 *Wing Com- r 3: Heart of the Ti- C3*—as fans call it— es the story of man's lactic war against the i, an aggressive tiger- ce. However, in con- to the previous two Commander episodes, longer have to imagine what Colonel Blair—the character you assume during the game—looks like. In *WC3*, he's played by *Star Wars* leading man Mark Hamill. Jason Bernard, who appeared in the movie *While You Were Sleeping*, takes the role of your commander.

PC GAMES

As you direct your on-screen alter ego, the plot changes. Pick the wrong wingman to fly with, and you could fail in your mission or even die. You'll then watch a video of your own funeral in space. Luckily, it's only your virtual self that meets its demise, so you can always restart the game and try different courses of action.

Although I'm a self-confessed flight-simulator fanatic, I rushed through many of the animated flying and fighting sequences—the "true gaming" portion of the program—just to get to the next video section. While the gaming sequences were enjoyable, I was so intrigued by the game's story line that interacting with the other actors became more compelling. The sequel, *Wing Commander 4: The Price of Freedom*, due out before Christmas, promises even more—an estimated six CDs full of digital video sequences.

For those who prefer horror flicks, there's Sierra Online's $70 *Phantasmagoria*. In this story, you play Adrienne, who has just moved with her husband, Don, into a large island mansion previously owned by an enigmatic magician. Soon, Don becomes possessed and seeks to kill you. As Adrienne, you must explore the house and pick up clues to understand what has happened and how to save Don from the evil force that grips him. This seven CD-ROM set is unique in placing digitized actors in a computer generated world where gameplay is as simple as clicking a mouse button. Want to see what's in the kitchen closet? Click on the door and Adrienne dutifully walks over and opens it. This seamless blending of digital video and computer art is surely a harbinger of forthcoming creations from the marriage of Silicon Valley and Hollywood.

Outside of its technical merits, *Phantasmagoria* has garnered much attention thanks to the grisly ways in which Adrienne meets her death. While some pundits have denounced the title, I found the footage and content to be no more graphic than that used in many theatrically-released "R"-rated horror movies. Still, although Sierra has put in a "censor" option allowing players to adjust the violence level, this game is best considered "adults only."

Other genres will debut soon in the interactive-video world. In November, Tsunami Media will offer *Silent Steel*, a military techno-thriller that puts you in charge of a U.S. ballistic missile submarine. The $70 title will use the emerging MPEG digital video standard, allowing gamers with an MPEG board to view video that fills the entire monitor, rather than just a small window.

But as interactive movies become even more engaging, they're going to require plenty of computing horsepower. Consider that brand new Pentium- or PowerPC-equipped computer just the starting point. A standard kitchen timer might also help—to limit your playing time.

Paul Eng

The latest offerings use digitized video to create a new level of realism

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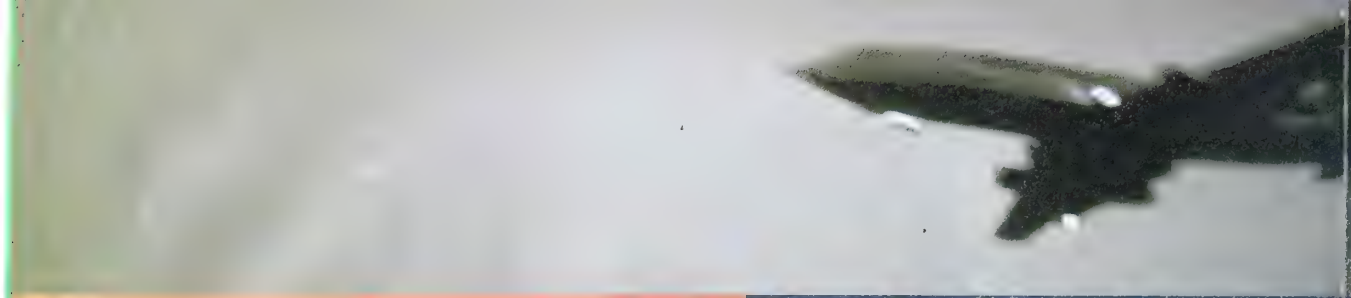
EXECUTIVE PROGRAMS

Beyond news. Intelligence.



By the time you turn this pag

18 planes will touch do

2,000,000 gallons of oil will be drille

33 homes will be built.

1,443,750 stocks will change hand

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had a busy day at work.

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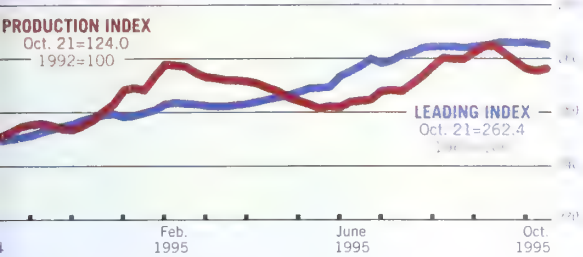
Financial Services Information and Media Educational and Professional Publisl

usiness Week Index

DUCTION AND LEADING INDEXES

ange from last week 0.2%
ange from last year 4.6%



exes are 4-week moving averages

oduction index edged up slightly in the week ended Oct. 21. Before ation of the four-week moving average, the index also rose, to 124.2 from

ading index was about flat in the latest week, but the unaveraged index fell to from 262.8. While the financial indicators of higher stock prices and lower ields were positive signals for the economy, sharply lower growth rates in als prices and real estate loans dragged down the overall index

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (10/28) thous. of net tons	1,926	1,834#	-1.4
AUTOS (10/28) units	135,989	134,500r#	-7.4
TRUCKS (10/28) units	115,074	125,526r#	-7.9
ELECTRIC POWER (10/28) millions of kilowatt-hrs.	57,049	57,046#	2.2
CRUDE-OIL REFINING (10/28) thous. of bbl./day	13,919	13,786#	5.1
COAL (10/21) thous. of net tons	20,410#	20,675	-0.6
PAPERBOARD (10/21) thous. of tons	896.6#	883.7r	-1.6
PAPER (10/21) thous. of tons	831.0#	820.0	-1.9
LUMBER (10/21) millions of ft.	467.3#	464.7	-2.8
RAIL FREIGHT (10/21) billions of ton-miles	25.6#	25.8	2.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (10/27) S&P 500	582.10	587.07	25.2
ORATE BOND YIELD, Aaa (10/27)	7.10%	7.08%	-17.9
STRIAL MATERIALS PRICES (10/27)	110.8	110.5	NA*
NESS FAILURES (10/20)	NA	NA	NA
ESTATE LOANS (10/18) billions	$500.1	$501.7	11.5
Y SUPPLY, M2 (10/16) billions	$3,722.6	$3,717.3r	4.1
L CLAIMS, UNEMPLOYMENT (10/14) thous.	359	356	10.5

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/1) $/troy oz.	381.950	382.400	-1.0
STEEL SCRAP (10/31) #1 heavy, $/ton	138.50	140.50	3.7
COPPER (10/28) ¢/lb.	131.5	129.4	3.8
ALUMINUM (10/28) ¢/lb.	77.0	77.0	-11.0
COTTON (10/28) strict low middling 1-1/16 in., ¢/lb.	83.09	83.18	19.8
OIL (10/31) $/bbl.	17.67	17.58	-5.2

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (10/31)	5.97%	5.70%	4.77%
ERCIAL PAPER (10/31) 3-month	5.81	5.82	5.63
FICATES OF DEPOSIT (11/1) 3-month	5.78	5.80	5.59
MORTGAGE (10/27) 30-year	7.70	7.69	9.17
TABLE MORTGAGE (10/27) one-year	5.76	5.85	6.00
(11/1)	8.75	8.75	7.75

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/1)	102.85	101.24	97.95
GERMAN MARK (11/1)	1.42	1.39	1.52
BRITISH POUND (11/1)	1.58	1.58	1.61
FRENCH FRANC (11/1)	4.90	4.90	5.22
ITALIAN LIRA (11/1)	1596.1	1615.5	1562.8
CANADIAN DOLLAR (11/1)	1.35	1.37	1.36
MEXICAN PESO (11/1)	7.205	6.750	3.431

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

CTIVITY AND COSTS

y, Nov. 7, 10 a.m. ▶ Output per rked probably rose at a strong annu- of 2.5% in the third quarter. Output nonfarm sector likely rose strongly, ested by the 4.2% advance in the ss domestic product, while hours likely increased by less than 2%. n productivity surged at a 4.8% rate in the second quarter. Greater cy, along with the mild rise in com- on, indicates that unit labor costs y increased at a 0.5% pace last Labor costs fell at a 1.1% pace in nd quarter and stood no higher ey were in the second quarter of hat lack of cost pressures at non-farm businesses is why inflation has been so low in this expansion. Productivity has been greatest among manufacturers.

INSTALLMENT CREDIT

Tuesday, Nov. 7, 3 p.m. ▶ Consumers probably took on $8.6 billion more in credit than they paid off in September. That's the median forecast of economists surveyed by MMS International, one of The McGraw-Hill Companies. The growth in debt has slowed a bit during the summer, after exploding in the first half of the year. In August, credit rose $9.1 billion, compared with the nearly $12 billion averaged in the second quarter. The slowdown reflects weaker car sales as well as the fact that some households are beginning to bump up against their credit limits. Nationally, installment debt as a percent of disposable income stood at a high 18.8% in August.

PRODUCER PRICE INDEX

Thursday, Nov. 9, 8:30 a.m. ▶ The MMS survey forecasts that producer prices of finished goods likely rose by just 0.1% in October, after a 0.3% increase in September. Prices, excluding the volatile food and energy sectors, also are expected to post an October rise of 0.1%, on top of a 0.2% increase. Inflation at the producer level is almost nonexistent. Prices are rising at less than 2% for all items, and 2.1% excluding food and energy.

This Week, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

North and south of the border, there are problems tarnishing the dream of NAFTA. Can our controversial trade partnership with Canada and Mexico still work? William J. Holstein, Business Week's world editor, leads the online discussion. **Nov. 5 9 p.m. EST in the Globe**

Wednesday

How free is speech in cyberspace? Can you get away with saying whatever comes into your head? Should there be controls? Attorney Lance Rose, author of Osborne/McGraw-Hill's *NetLaw*, specializes in such issues—and answers your questions with Catherine Yang, BW legal affairs correspondent in Washington. **Nov. 8 10 p.m. EST in the Main Stage**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

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AMERICA Online

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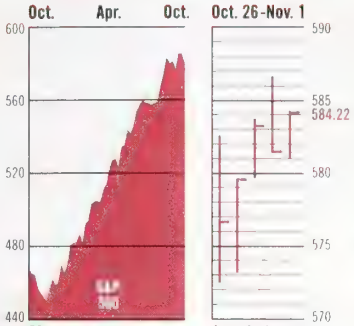
vestment Figures of the Week

ENTARY

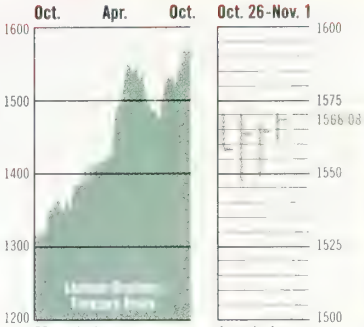
ly buoyant economic tid- led the tune for much of k. Large cap stocks ral- Oct. 27, reacting to a gov- t report that economic was on an upswing in the arter. The Dow Jones in- average gained 38 rising to 4742, in reaction that the economy grew at annual rate, which was han expected. Technology ed the advance. But idn't suffer: 30-year es dipped to 6.29% on the lowest in two years.

STOCKS



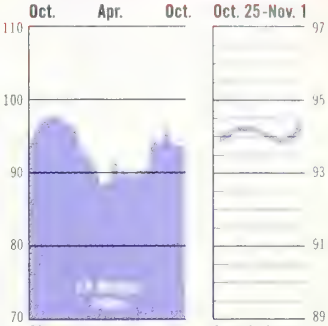
52-week change +25.2%
1-week change +0.3%

BONDS



52-week change +19.1%
1-week change −0.1%

THE DOLLAR



52-week change +0.2%
1-week change +0.4%

RKET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	4766.7	0.3	24.2
E COMPANIES (S&P MidCap Index)	211.4	0.5	20.6
OMPANIES (Russell 2000)	297.7	0.0	17.3
MPANIES (Russell 3000)	334.6	0.3	24.8

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3518.7	−0.5	14.2
NIKKEI INDEX)	17,474.5	−2.8	−11.5
0 (TSE COMPOSITE)	4453.0	2.8	5.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.46%	5.38%	5.21%
30-YEAR TREASURY BOND YIELD	6.29%	6.32%	8.09%
S&P 500 DIVIDEND YIELD	2.33%	2.35%	2.78%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.3	17.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	533.7	530.9	Positive
Stocks above 200-day moving average	61.0%	63.0%r	Neutral
Speculative sentiment: Put/call ratio	0.70	0.58r	Positive
Insider sentiment: Vickers sell/buy ratio	2.62	2.58	Negative

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
PUTER SOFTWARE	9.2	45.2	COMPUTER ASSOCIATES INTL.	30.2	65.8	55
S	8.3	−8.0	U.S. HEALTHCARE	8.8	−18.5	38 1/2
EBUILDING	8.1	37.3	CENTEX	12.9	47.2	32 3/4
WHOLESALERS	7.8	19.8	SYSCO	11.5	22.1	30 3/8
PUTER SYSTEMS	7.2	37.8	SUN MICROSYSTEMS	23.8	138.2	78

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
HINE TOOLS	−14.4	−2.4	CINCINNATI MILACRON	−18.3	−5.9	25 3/4
RAL MERCHANDISE CHAINS	−14.4	−5.5	KMART	−44.0	−50.8	8 1/8
MINING	−13.3	−8.4	SANTA FE PACIFIC GOLD	−21.8	−31.3	9 7/8
RTMENT STORES	−12.2	−8.5	J.C. PENNEY	−15.1	−17.0	42 1/8
R CONTAINERS	−12.2	−1.2	TEMPLE-INLAND	−14.6	−3.7	45 1/2

UAL FUNDS

MORNINGSTAR INC

TS

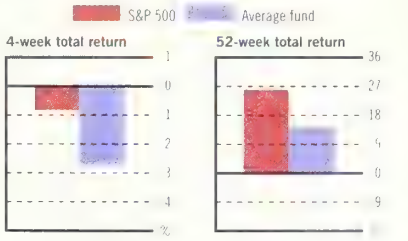
ek total return	%
TONE NEW ZEALAND	7.0
E OAK GROWTH STOCK	4.5
BARNEY SPECIAL EQUITIES B	3.1

total return	%
ITY SELECT ELECTRONICS	81.8
TT SMALLER COMPANIES A	70.1
ITY SELECT COMPUTERS	66.7

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-MEXICO	−19.0
CAPPIELLO-RUSHMORE GOLD	−16.6
MFS GOLD & NATURAL RESOURCES B	−15.3

52-week total return	%
WRIGHT EQUIFUND-MEXICO	−59.7
TCW/DW LATIN AMERICAN GROWTH	−42.4
TCW GALILEO LATIN AMERICA EQUITY	−41.8



ATIVE PORTFOLIOS

DRI MCGRAW HILL

mounts represent the value of $10,000 one year ago portfolio

ages indicate total returns

Treasury bonds
$13,084
−0.16%

U.S. stocks
$12,791
−0.86%

Foreign stocks
$10,948
−1.23%

Money market fund
$10,554
+0.12%

Gold
$9,773
+0.03%

n this page are as of market close Wednesday, Nov. 1, 1995, unless otherwise indi- ustry groups include S&P 500 companies only; performance and share prices are as of market close Oct. 31. Mutual fund returns are as of Oct. 27. Relative portfolios are valued as of Oct. 31. A more detailed explanation of this page is available on request. r=revised

LET'S END OUR INFLATION OBSESSION

It's one for *Ripley's Believe It or Not.* Despite super-duper 4.2% growth in the third quarter, the inflation rate as measured by the Consumer Price Index fell to a paltry 1.8% for the quarter. Given that the CPI index probably overstates inflation by 0.5% to 1%, the economy is edging toward a new kind of disinflationary growth. Nearly five years into economic expansion, inflation continues to fall. This is big news. Standard economics tells us that this is nigh impossible.

But don't take our word for it. Check the numbers. The CPI inflation rate for goods plummeted from 2.7% in May to 1.5% in September. But what about services? They've been the big spoiler in the inflation picture, right? Well, the CPI inflation rate for services is down to 2.6% for the past three months.

Let's get specific. The medical services inflation rate fell to 4.9% in September, a 22-year low, according to Edward E. Yardeni at C.J. Lawrence/Deutsche Bank Securities Corp. The inflation rate for private-school tuition is at 5.7%, down from the double digits of the 1980s. And wage inflation, running at a 2.8% quarter-on-quarter annual rate, is the lowest since the 1950s.

For a growing number of goods, there is actual deflation, says Yardeni. They include computers, high-tech medical equipment, household appliances, gasoline, and apparel. The annual CPI inflation rate for new cars fell to 1.5% in September. Drug price inflation is down to 2% annually, communication gear 1.4%, office machinery 0.6%.

True, entertainment inflation is up: to 3.9% in Septe The transportation inflation index, always volatile, skyroc from 2.5% at the end of 1994 to 5.6% in June but rose 4. September. The CPI inflation rate for paper and chem which zoomed over the past year, was cut in half by tember. Ditto for lumber, copper, and most commoditie

So what does all this mean? Certainly no one should claring victory in the war on inflation. But the drop in pr the face of fast growth is a reminder that during most of it year history, the U.S. economy has not been inflation-pro fact, there have been times when deflation, not inflation, ha the problem. This is a legitimate concern today.

Yet an inflation obsession rules the nation, despit facts. We would like to gather in one room the Wall bond vigilantes, Federal Reserve policymakers, and ington politicians who, in their balanced-budget assump cap growth at the "natural" rate of 2.5%. Then we make them repeat this mantra: Fast growth doesn't higher inflation. Fast growth doesn't equal higher infla

Who knows? If they break out of their rigid think might just lead to a high-growth, low-interest-rate ec that gives us 4% to 5% mortgages, labor markets that er real wage gains, and job stability. You've heard this kind of economy, haven't you? It's the postwar ec of many of our parents.

NOW IS NOT THE TIME TO BYPASS JAPAN

"Japan passing" has replaced Japan bashing as the key discussion topic among U.S. corporations investing in Asia. With markets expanding all across the Pacific Rim, why should U.S. executives pound on the portals of Fortress Japan? Roughly 40% of all manufacturing output there is managed by 10,000 regulations, many of which are designed to keep foreign companies out of coddled domestic markets. And Tokyo bureaucrats pull all-nighters figuring out ingenious ways to erect invisible trade barriers as well. So why bother when China beckons, or Thailand, Malaysia, and Vietnam?

Because Japanese mercantilism is at long last being undermined. Japan's multilayered distribution system is being shattered by a new breed of discounters. Most are Japanese, hungry for U.S.-branded goods, but a growing number are American, including Gap Inc. and Toys 'R' Us Inc. They are increasingly popular with Japan's new yen-pinching consumers, who, after four years of economic stagnation are willing to give American products a hard look.

This is why Compaq, Apple, IBM, and others have grabbed 30% of Japan's $9 billion PC market. Motorola has roughly 15% of the cellular-phone market. And Detroit auto makers are finally rolling out right-handed vehicles while trumpeting plans to increase their sales to Japan to nearly 500,000 cars turn of the century.

Is Japan still a maddening place to do business? Sur much more needs to be done. The biggest opportunities less-regulated markets, such as computers, software, goods, household goods, and CDs. In those markets that c to be heavily regulated, Japan passing is a reality. overregulated financial markets have sparked a steady of delistings by foreign companies from the Tokyo Sto change. And AT&T is looking to China for new growth b the $70 billion colossus Nippon Telegraph & Telephone continues to dominate Japan's telephone and multimedia

Penetration of Japanese markets by U.S. products is ing new benefits to Japanese consumers. Lower price led to Japan's first boom in home personal computers. A prices are beginning to fall as well, with lower-priced C Neons about to give Japan's auto makers their fir competition in their main, smaller-car market, while th Cherokee sells into the booming sport-utility sector.

For all its problems, Japan's sophisticated $5 trillio omy is bigger than South Korea, Thailand, Malays Singapore combined. With barriers finally beginning Japan passing is a self-defeating strategy.

IF THIS IS WHAT YOU
THINK OF CONSUMER MARKETS
IN INDONESIA...

Today, with a population of nearly 200 milli

It's a market equal in size to that of Germany, the UK and France combined, yet it continues to be missing in the global plans of many American and European corporations. It's a country with a skilled, fast-growing middle class, where foreign corporations find it easy to both produce and market their products. The World Bank states that Indonesia's economy could be the world's 6th largest by the year 2010. Its largest foreign investor in manufacturing is Japan. The US is fourth. If your business needs to learn more about Indonesia, call 1-800-646-7382 (Dept. B22) for a free brochure or contact http://www.indonesiatoday.com

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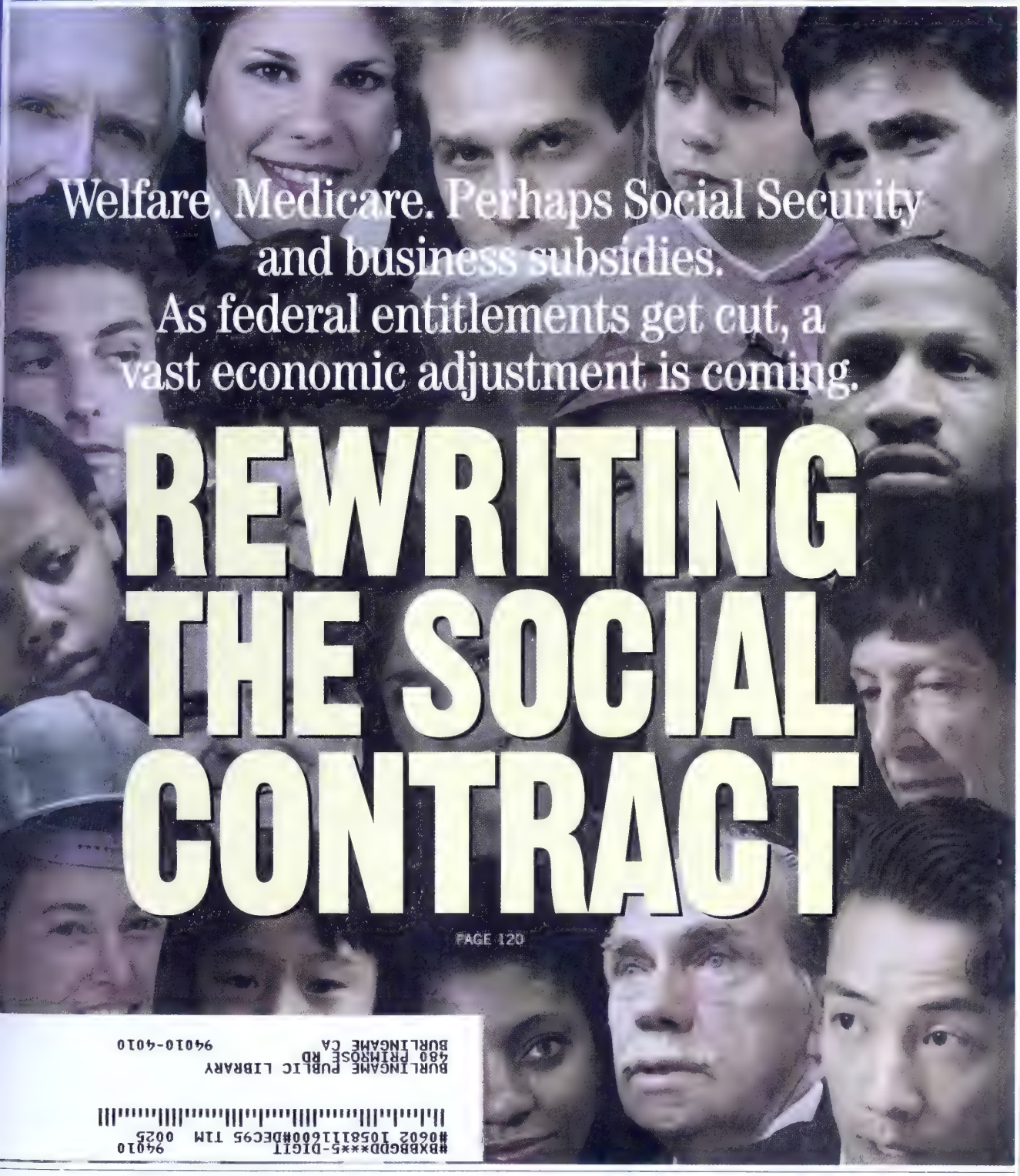

Welfare. Medicare. Perhaps Social Security and business subsidies. As federal entitlements get cut, a vast economic adjustment is coming.

REWRITING THE SOCIAL CONTRACT

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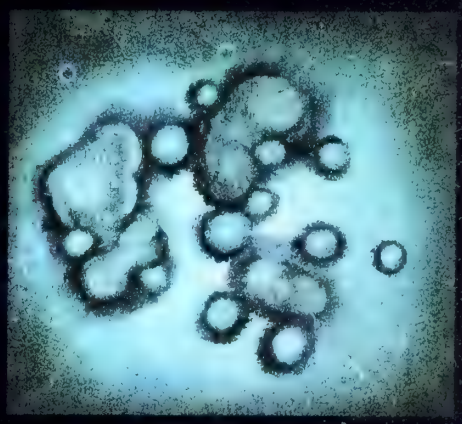
The Big Bad Wolf

The Wicked Witch

The Thing Under the Bed



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Marlene Dietrich

Errol Flynn

All born too soon.

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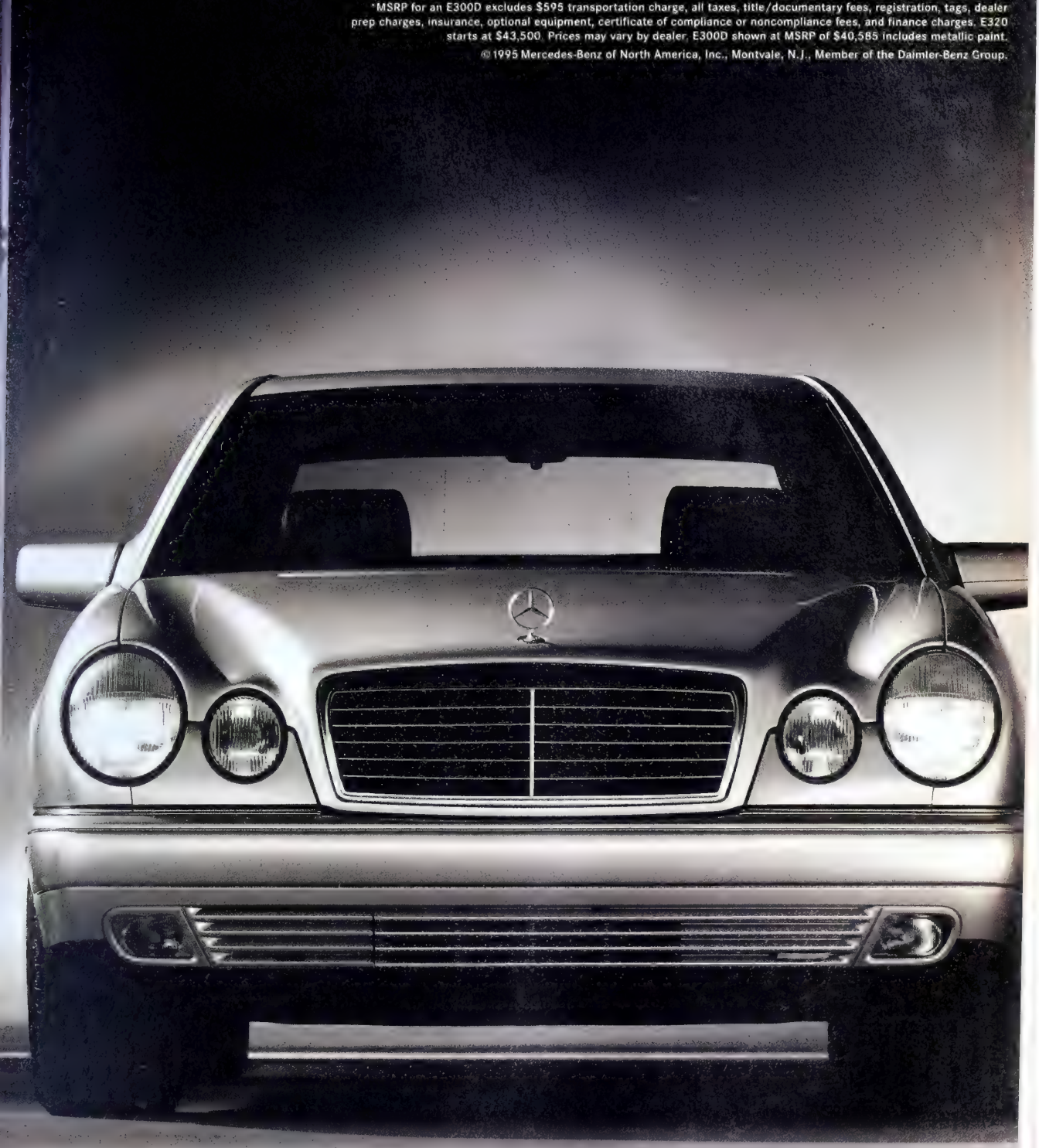

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BusinessWeek
NOVEMBER 20, 1995

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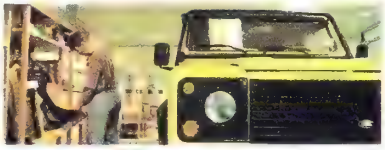

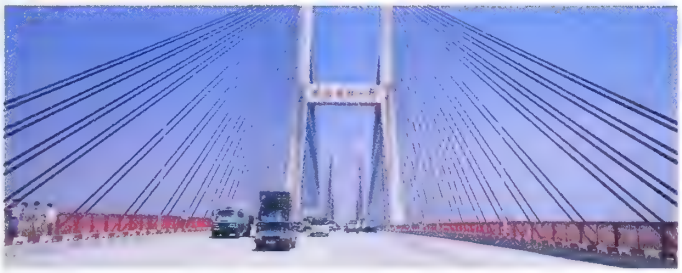

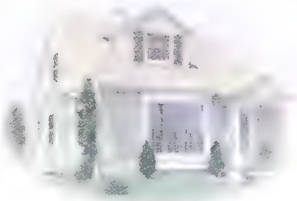

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But can demand be met?

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Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

OLYMPICS '96

WILL THE GAMES BURN ATLANTA?

ATLANTA ISN'T GOING FOR the gold in the Olympics. An outside analysis predicts profits for 1996 at a slim $13 million. That's not much of a cushion if unexpected costs crop up. Worst case: It jeopardizes a vow not to charge local taxpayers a penny.

ON YOUR MARK... *Get set, taxpayer*

Los Angeles scored a tidy $223 million gain in the 1984 Olympics largely because, unlike Atlanta, it didn't build a lot of sports facilities and housing for the event. The Atlanta Games are spending $500 million on construction.

According to Price Waterhouse, which did the analysis for the watchdog Metropolitan Atlanta Olympic Games Authority, revenue from tickets and merchandise may come in below what's budgeted. Example: slow sales of $35 bricks bearing your name that you can either carry home or donate to pave plazas and walkways in a park to be built downtown. Only $8 million has been raised so far, with $15 million needed to meet the target. There's a Dec. 31 cut-off date for bricks to go in the park so construction can start.

The Atlanta Olympic committee says its $1.7 billion budget is sound—and projects a comfy $30 million profit. Nonetheless, it's under orders to present a more detailed budget. *Nicole Harris*

SLUGFESTS

DECLARATION OF INDY-PENDENCE

AUTO RACING FANS MAY WELL face a dilemma next Memorial Day: Disgruntled team owners plan to run their own race, competing with the fabled Indianapolis 500, and chances look dim for a compromise. Says Tony George, president of the Indianapolis Motor Speedway: "We're well past the window of opportunity" to settle differences.

THE BRICKYARD: *Mutiny in the air*

The rift, which leaves such sponsors as PPG unsure whom to deal with, centers on the team owners' races on city streets and other road courses. Their group, Championship Auto Racing Teams (CART), boasts most of the top drivers (Al Unser Jr., Michael Andretti). The Speedway wants to run only on oval tracks. At stake is who will block out the most racing dates for their series in this lucrative sport.

So the Speedway has set up the Indy Racing League series, starting Jan. 27 in Orlando. To qualify for 25 of the Indy 500's 33 spots, drivers must compete in the IRL races—which the CART owners refuse to do. □

TALK SHOW "I deeply regret being forced to sue a company I helped build and love very much."

—Lee Iacocca, an ally of Kirk Kerkorian, suing Chrysler for blocking his exercise of $42 million in company options

UNCOMMON MARKET

SEEING RED OVER THE GRAY MARKET

EUROPE'S GRAY MARKET FOR cars, a chronic problem, is flourishing as never before. Reason: currency swings producing price gaps of up to 50% on individual models from one country to another.

Although the Italian lira's and the Spanish peseta's value has tumbled against other European currencies, carmakers such as Germany's Volkswagen and France's Peugeot haven't raised prices in Spain and Italy for fear of losing customers. So fleet-footed "re-importers" are legally snapping up autos in Italy and Spain, then shipping them to bargain-hungry buyers in Germany and France—at much lower prices than to of local dealers.

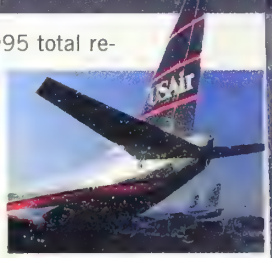
This sweet trade bat conventional dealers and pressure on auto compa margin.

VW: *Made in Germany, s in Italy, resold in Germa*

Europe just as overall s are softening. That's why makers are so keen on pu ing through a monet union, which would elimin currency swings. H ever, that is not likely to h pen by the scheduled 19 deadline. *David Woodr*

THE LIST **JUNK JUBILEE**

Junk bonds have seen average 1995 total returns jump 16.3%. Sure, that pales beside equities' 35.5%. But junk is way up from the 0.2% gains in 1994, when Fed rate hikes hit. While 9 of the top 10 performers sell at a discount, their prices are much higher. USAir leads the pack: American or United, both stronger financially, may buy it. Improved news for wireless services and Atlantic City casinos cheer buyers.



PRIZE BIRD: *Suitors boost bond prices*

BEST-PERFORMING JUNK BONDS, 1995

ISSUER	INDUSTRY	MATURITY	TOTAL RETURN*
USAIR	AIRLINE	2003	68.3%
TRUMP'S CASTLE	CASINO	2003	67.5
JPS TEXTILE	TEXTILES	2000	63.1
NEXTEL	WIRELESS	2003	49.4
NEXTEL	WIRELESS	2004	45.7
ONECOMM	WIRELESS	2004	45.1
GNF	CASINO	2003	41.8
COMPUTERVISION	SOFTWARE	1999	37.1
JPS TEXTILE	TEXTILES	1999	36.6
TRUMP PLAZA	CASINO	2001	35.4

* Price appreciation plus interest income, Jan. 1 through Oct. 31, 1995

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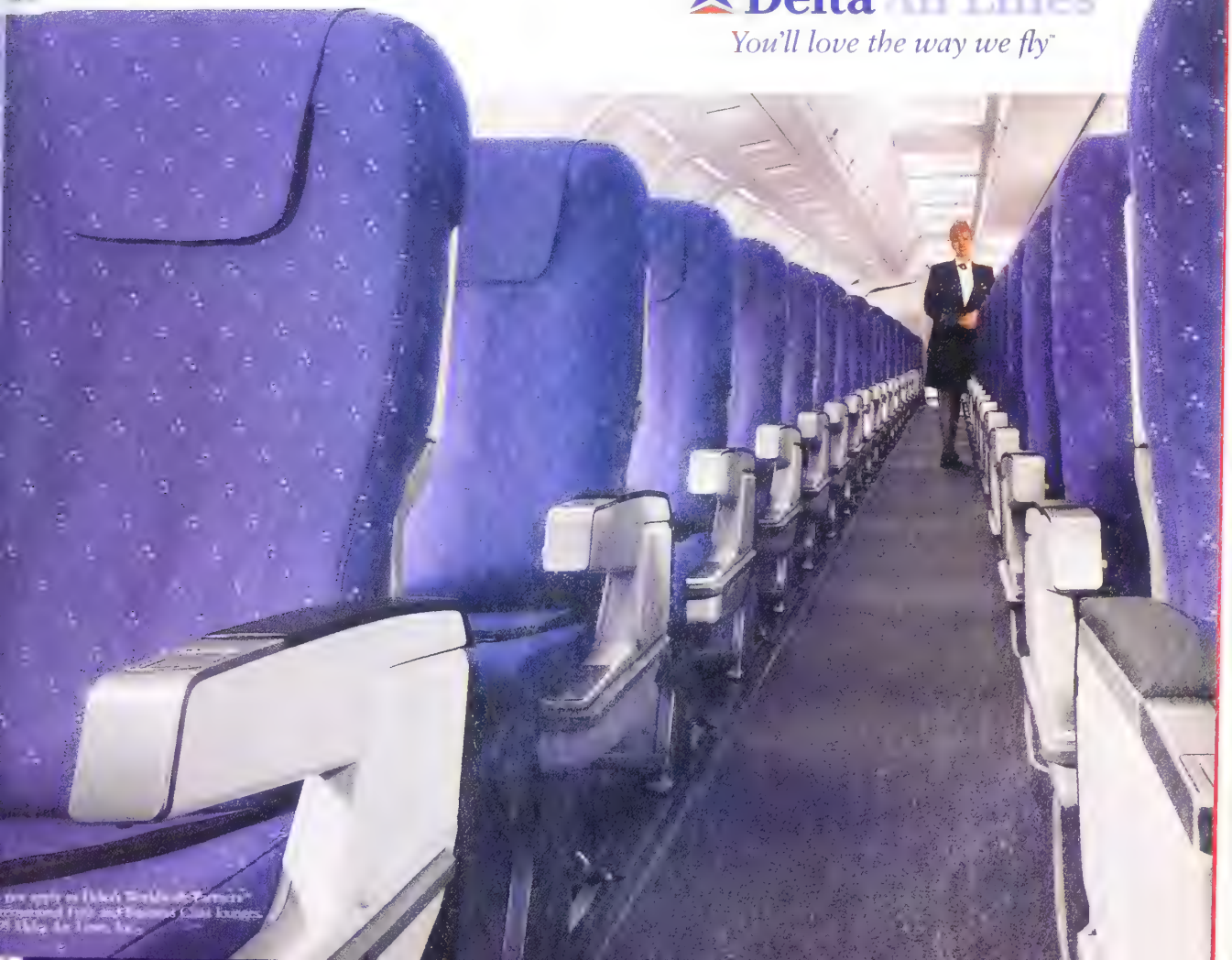


Up Front

TOYLAND

THIS MOVIE WINDS UP OLD FAVORITES

A CHESTFUL OF OLD TOYS could get new commercial life this Christmas, thanks to the upcoming Walt Disney movie *Toy Story*. The computer-generated flick, which is due to appear on Nov. 22, costars Slinky Dog, the coiled-wire toy with a pooch's head that slinks down stairs. Slinky Dog has been in toy heaven for the past five years, but the celluloid exposure is prompting James Industries to return him to the shelves.

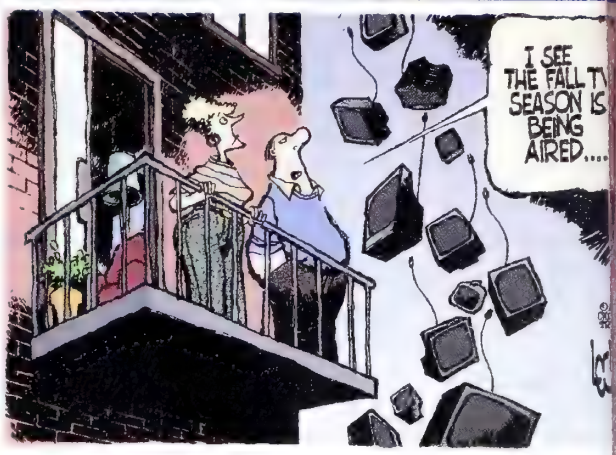
With fingers crossed that the film will be a success, toymakers are gearing up for a sales rush. Hasbro, whose Playskool unit produces Mr. Potato Head, has a special *Toy Story* version: The character sports the bowler hat he wears in the movie. There are coupon giveaways for the two Mattel toys featured, the Hot Wheels track (for tiny cars) and See 'N Say (a tot's educational game). Kids buying popcorn, soda, and candy at a *Toy Story* showing get a discount coupon for the toys.

NEW LIFE: *Mr. Potato Head on-screen*

For toymakers, the beauty of this movie is that they don't have to pay product-placement fees. Disney was so eager to use well-known toys that it skipped the usual arrangement, where companies pay studios big bucks to get their products shown in the theater.

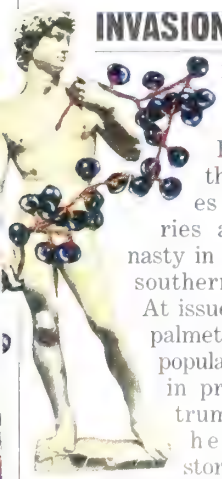
Still, not all toys answered Disney's casting call for the movie. The studio says Hasbro kept G. I. Joe off the set (although Hasbro won't confirm it). Why? Because the filmmakers wanted to blow his head off. *Ronald Grover*

DRAWN & QUARTERED



GOLDEN HARVEST

INVASION OF THE BERRY PICKERS



IT MAY NOT be the California Gold Rush, but the skirmishes over berries are getting nasty in Florida and southern Georgia. At issue is the saw palmetto berry—a popular ingredient in prostate nostrums sold by health-food stores. With little regard for private property, pickers roam through land where the olive-size berries grow wild on shrubs. During the picking season just ended, the Collier County (Fla.) sheriff's office was flooded with trespass complaints from local landowners, who want to bring in the berry crops themselves.

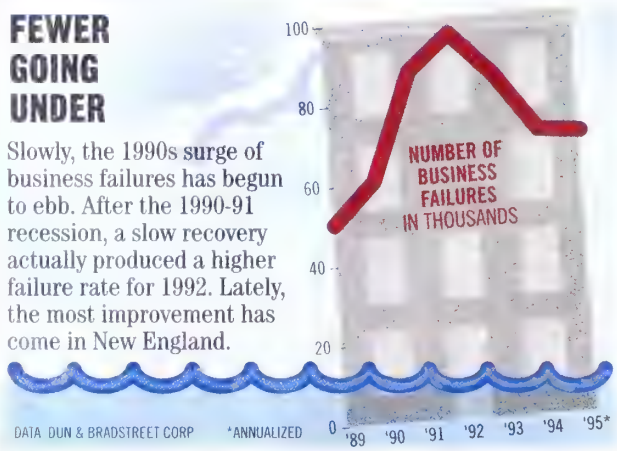
Why the picking frenzy? A few years ago, the berries fetched 25¢ a pound; this season, $3.50. Picking 50 pounds a day brings you $175.

France's Pierre Fabré and American companies such as Nature's Way process the berries into capsules reputed to retard prostate swelling and bolster sexual potency. So far, no one has cultivated the plant, which takes seven years to sprout berries. How effective is this stuff? Dr. Jay Gillenwater, president of the American Foundation of Urological Disease, says patients have gotten results. He says the berries have the same component as prescription prostate drugs—but he says prescription drugs are more effective. *David Swafford*

THE BIG PICTURE

FEWER GOING UNDER

Slowly, the 1990s surge of business failures has begun to ebb. After the 1990-91 recession, a slow recovery actually produced a higher failure rate for 1992. Lately, the most improvement has come in New England.



PRODUCT PEEK

TO CATCH A CHIP THIEF

A COMPANY THAT PROVI the magnetic devices t department stores rely o thwart shoplifters now wa to furnish an even high tech version to the compu industry. By some estima the black market for comp er components now exce $8 billion a year. Indus employees are responsible 50% of the thefts.

SUPER ST *Hard to*

Knogo North America, located in Hauppauge, N. Y., is introducing the hair-thin Super Strip, which can fit on a computer chip, a hard drive, or other compone Made of two types of coba based alloys, the hard-to-d tect strip sends off a stro signal when it passes a se sor at, say, the factory do

The cost of this sort protection for a Pentium ch with a $500 street value under 50¢, says Thomas N olette, Knogo's chief exec tive. He says he has seve high-technology compani signed up, but he declines reveal their identities. "Th program is best kept unde stated"—to avoid tippi off potential thieves, he say The strip may be deactivat by the chip maker or t retailer. *Stan Cro*

FOOTNOTES Number of messages an E-mail user will send in a typical day: 3; number received: 5

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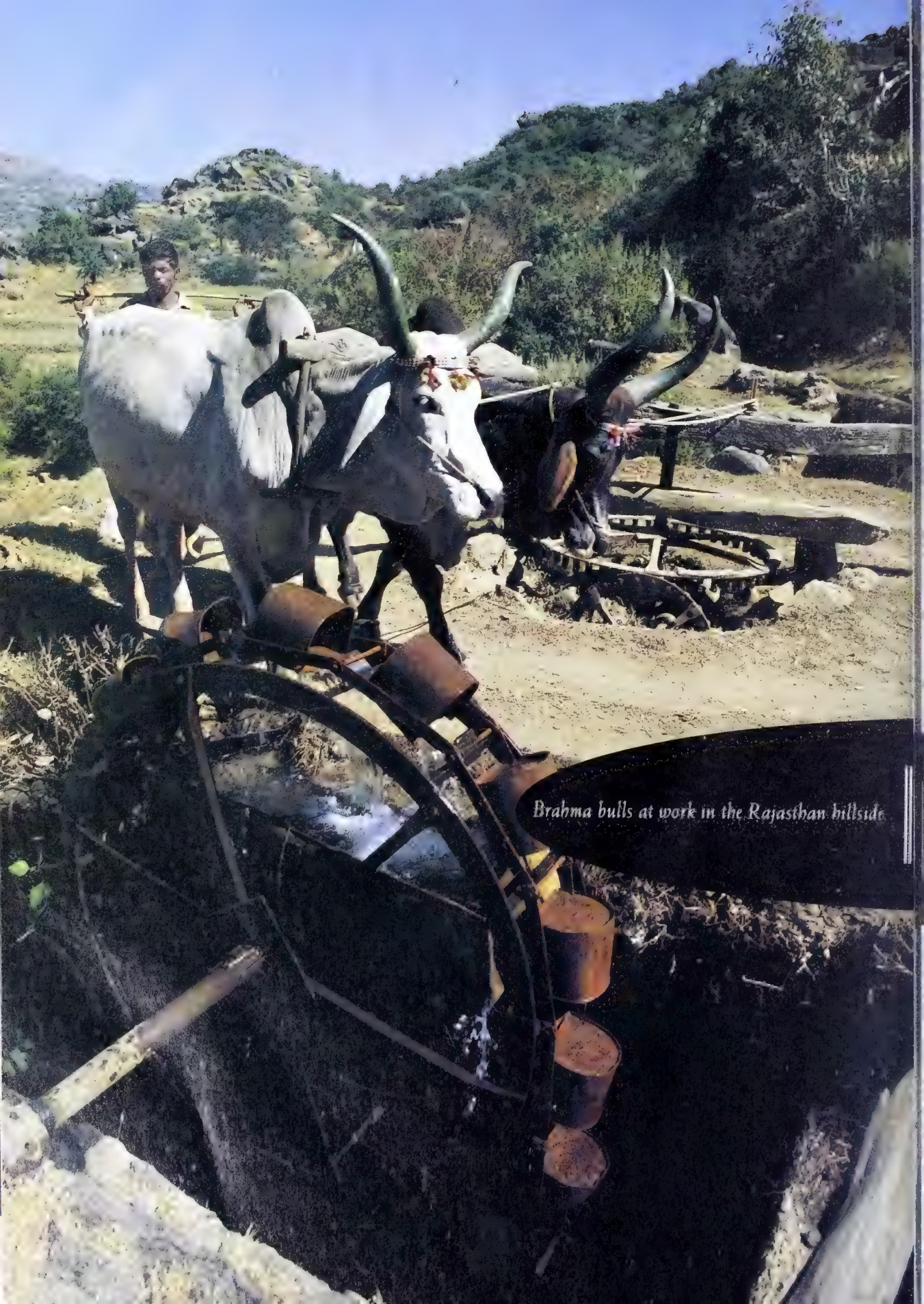

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Readers Report

THE WAY CIGNA SEES IT

In your article about CIGNA Property & Casualty Insurance Co.'s recent restructuring and reserving action, I believe you have done the company—and the insurance industry—a very significant disservice ("Is CIGNA creating a time bomb?" Finance, Nov. 6). Rather than addressing the hard facts about our company's actions, you have chosen instead to cite the uninformed opinions of competitors, who are clearly eager to protect their market share and avoid the reserve issues that we have addressed.

Contrary to the assertions that were made by American International Group, Chubb, and St. Paul—which stand to benefit substantially from their criticisms of our actions—the real threat to the guaranty funds comes from those insurance companies that have not yet faced up to their responsibilities for asbestos and environmental (A&E) liabilities.

Our objective was to address A&E liabilities in a way that improved the position of past and current policyholders. We have made it clear to regulators and rating agencies that we are not walking away from the past. On the contrary, by strengthening our reserves, we have addressed the issue from a practical, economic perspective. The active and inactive operations we have created are linked by a common parent, tax-sharing agreements, reinsurance arrangements, and shared services. Clearly, we would not have established such linkages if we planned to disengage ourselves from this business. The restructuring protects past policyholders by doubling A&E reserves to nearly $2 billion and providing $7 billion in assets as well as future investment income, resulting in resources that are far more than any losses that can be reasonably expected. In addition, the active companies will provide a $500 million excess of loss coverage to the inactive operations as further protection.

As an insurer committed to meeting the obligations of our policyholders past and present—and subject to t same guaranty fund assessments as o competitors, CIGNA P&C has just as mu interest in ensuring the success Brandywine, the company that will ma age the A&E liabilities, as does any our competition.

Gerry Isc
Preside
CIGNA Property & Casual
Philadelph

CORRECTIONS & CLARIFICATIONS

In "Are these 10 stretched too thin?" (T Corporation, Nov. 13), the name of t chairman of Korn/Ferry International shou have been Richard M. Perry. And the nan of one of the data providers for the accon panying chart was Directorship DataBan not Directorship DataBase.

In "Get with the programs" (Annual Buyin Guide, Nov. 6), the selling price for Microso Works should have been $54.95 for the dis version and $79.95 for the CD-ROM versio

THIS MERGER WAS NO FLOP

In "The case against mergers" (Sp cial Report, Oct. 30) you list the merg of Mellon Bank Corp. and Boston Co. part of a chart with the "worst meg deals of the 1990s." We were stunned that inclusion, given the clear success the merger. Here are the facts:

- The combined organization, now calle Mellon Trust, has added more than $18 billion in new client assets since th merger—a 42% increase—and has i creased our market share in institutio al trust and custody by approximate three percentage points. In fact, wit other similar mergers, companies hav actually lost market share.
- Mellon reported record earnings i 1994 and three excellent quarters i 1995. In fact, we just reported recor third-quarter earnings.
- Our stock is up 108% since Septembe

Business Week

A Division of The McGraw-Hill Companies

NOVEMBER 20, 1995 (ISSN 0007-7135)*** 3451

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, when we announced our plan to ire Boston Co.; the Standard & 's 500-stock index is up 48% over ame period. Our stock has also out- ormed the bank-stock indexes com- , by Keefe, Bruyette & Woods Inc. have increased our dividend four s in two years, for a total of 117%, we just announced an 8 million e common-stock buyback program. nce we acquired Boston Co., we reduced our long-term debt by it $1 billion and will have repur- ed $900 million of equity after the 8 on share repurchase is completed , March.

conclusion, to label the merger of the worst megadeals of the ds" is blatantly incorrect and repre- s a serious disservice to our share- ers, our clients, and importantly, to dreds of employees who have ked diligently to create a successful ger of two fine companies. In fact, r own data in the article confirm the itive results we've achieved since merger was announced. We are dis- red that BUSINESS WEEK continues ely more heavily on uninformed per- tion than fact-based reality when re- ting on Mellon Bank Corp.

Steven G. Elliott
Vice-Chairman and CFO
Mellon Bank
Pittsburgh

According to Securities Data Co., the ue of announced domestic merger- d-acquisition transactions exceeded 7 billion in 1994 and $300 billion for first nine months of this year. You dercounted M&A activity by more n $150 billion over the past seven arters. This exclusion greatly com- omises your otherwise well- earched article.

Richard J. Peterson
Securities Data Co.
Newark, N.J.

itor's note: Securities Data Co. de- es merger-and-acquisition activity ch more broadly than Mergerstat, merger research service used by SINESS WEEK. SDC counts such trans- ions as asset sales and purchases of all equity stakes. BUSINESS WEEK felt rgerstat's data better reflected the ls discussed in the story.

E RAG TRADE N'T ALL SWEATSHOPS

Your article "Look who's sweating w" (The Workplace, Oct. 16) was an eresting and troubling account of the e of the modern sweatshop in the

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agree on how t
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respected mutual
fund managers all
give thumbs up to
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The Montgomery

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Bill Berger
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Stan Egener
Neuberger & Berman Funds

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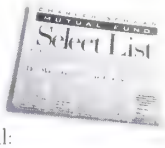

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Charles Schwab

Historically High-Performing Mutual Funds

Charts represent growth of a hypothetical $10,000 investment over a 5-year period ending 9/30/95. Assumes reinvestment of capital gains and income.

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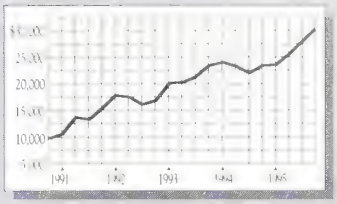
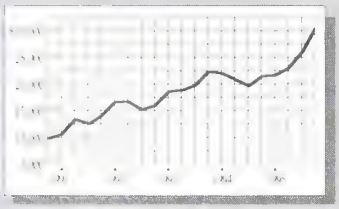


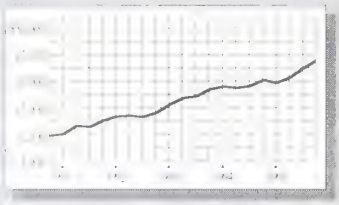
Value of investment: $30,583
Average annual returns (as of 9/30/95):
1 year +29.97% 5 year +25.05% 10 year +15.69%

WARBURG PINCUS EMERGING GROWTH



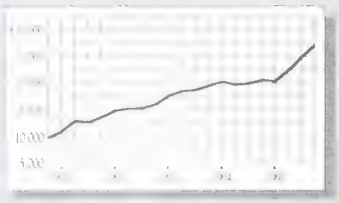
Value of investment: $30,720
Average annual returns (as of 9/30/95):
1 year +41.54% 5 year +25.16% Since Inception +18.45%

STRONG OPPORTUNITY



Value of investment: $24,180
Average annual returns (as of 9/30/95):
1 year +18.57% 5 year +19.31% Since inception +18.32%

NEUBERGER & BERMAN GUARDIAN



Value of investment: $27,387
Average annual returns (as of 9/30/95):
1 year +32.36% 5 year +22.32% 10 year +16.16%

MORNINGSTAR *Data provided by Morningstar, Inc. as of 9/30/95. Funds selected from the Schwab Mutual Fund Select List (Second Quarter 95). These and 350 other funds are available through the Schwab Mutual Fund OneSource.*

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Readers Report

U. S. apparel-manufacturing industr
Unfortunately, it would lead an uni
formed reader to assume that swea
shops are the normal method of doi
business in this country. Your story fa
to mention that the textile and appar
industry is concentrated not in Los A
geles or New York but in the Southeas
where hundreds of millions of dolla
have been invested over the past deca
to keep pace with international compet
tion and major changes in the reta
clothing business. My company is part
a vertically integrated, multination
manufacturing organization that emplo
thousands of people, none of whom wor
under the conditions described in th
article.

Paul J. Tod
Department Manager, Cuttin
Cross Creek Apparel In
Mt. Airy, N. C

THESE BUNNIES ARE MULTIPLYING LIKE RABBITS

Your article "Winding up for the bi
pitch" (International Business, Oct. 2
continuously alludes to the Duracell bun
ny. However, if my memory serves me
that unstoppable drumming bunny be
longs to Eveready batteries.

David Balco
Managing Directo
Northwest Research & Consultin
Edmonton, Alb

*Editor's note: Although many of ou
readers found this confusing becaus
Eveready uses a bunny in its U. S. ad
vertising,* BUSINESS WEEK *was correc
in reporting that, in China, a bunny
runs in Duracell ads.*

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There's a change on the ground, too, with new signage, better ticketing, check-in and reservations service for our fast-growing network of worldwide destinations, and many more improvements to come.

Above all, though, whenever you see our pink plum blossom, you will recognize a fresh spirit within China Airlines.

A spirit that is strong, committed, and constantly striving to be better, every day.

It shows a determination to be not only Taiwan's best airline, but one of the world's best.

And from now on, we carry the pink plum blossom with pride, from Taiwan to the world.

We blossom every day.

CHINA AIRLINES

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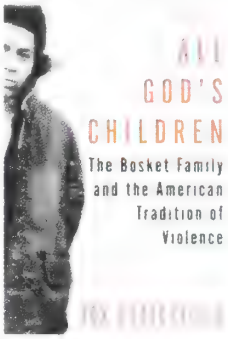
VHAT MAKES VILLIE BOSKET KILL

re's gonna be a lot of white chalk/ brains on the sidewalk....

Through the lyrics of such gangsta rappers as Junior M. A. F. I. A., we've heard a lot about the et ethos of hotheaded young men, ly with a gun or knife for anyone disrespects them. But to Fox Butield, it's nothing new: This mix of icidal rage and intense concern for s reputation reminds him of nothing nuch as the violent habits and "code onor" of the pre-Civil War Southern e. "We have a sort of honorable ne.... Whenever the Southern dagis drawn, there is something manly chivalrous in the use of it," he tes a 19th century lawyer from Edgefield, S. C., as saying.

As it turns out, Edgefield is not only a place with a remarkable record of violence among the white gentry. It is also the ancestral home of an African American family, the Boskets—whose progeny includes Willie Bosket Jr., one of the most brutal and notorious criminals of recent years. In *All God's Children*, Butterfield, a *New York Times* reporter, tells how his investigation of Willie Bosket led him to examine the man's past—and his family's.



"What emerged was not just a portrait of the Boskets, but a new account of the origin and growth of violence in the United States," Butterfield promises in his prologue. And for about half of the book, he delivers just that: a theory backed up by fascinating historical discoveries tying many of today's urban ills to America's bloody, rural past. Sad to say, what starts out so well ends up a disappointment, its thesis all but overwhelmed by anecdotal detail.

It's almost as if Butterfield had written two books. His exploration of the folkways of the Old South is, of course, not original: Violence was felt to be "the only really decent relief for wounded honor," wrote W. J. Cash in his seminal 1941 work, *The Mind of the South*. Still, Butterfield's is a fascinating chronicle.

In "bloody Edgefield," honor became a compelling passion: Street fights were common, and a killing did not necessarily stain a man's reputation. Contributing to the region's attitude toward violence was slavery. And along with brutal treatment, slaves received something else: their white masters' code of honor.

With emancipation, the Boskets tried to avoid white-supremacist ire by keep-

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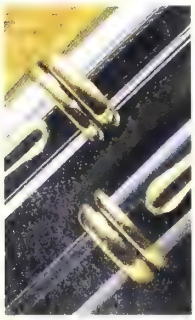

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a low profile. But by the early 1900s, Bosket had turned to thievery as a er and brawling as a pastime. With legal system in the hands of whites regarded every black defendant as y, a reputation for lawbreaking be- e akin to a badge of honor among ks. Before his death in a car crash 924, Pud would earn his badge, es- ishing himself as one of the "bad- " men around.

Don't step on my reputation. My e is all I got," Pud asserted. Pud's loits became an inspiration to his James, and his grandson, Butch, by 9 had a criminal record. The lhood arrest led Butch's grandmoth- o ship him in 1950 to New York , where his mother had moved. And about here in the narrative that terfield also goes astray, becoming all submerged in the details.

history of truancy and parental ne- t led to Butch's first incarceration the beginning of a lifetime of insti- onalization. Butterfield tracks Butch's nes, his treatment by social work- and psychologists, and his life in out of prison. By 1962, at 22, Butch been sentenced to life for a double der in Milwaukee.

Shortly thereafter, Butch's wife gave birth to his son, Willie. Like his father, of whom he knew little, Willie's most effective schooling came from the streets. Soon, his truancy, fierce tantrums, and penchant for running away led to committal to a series of institutions, including several where his father had been.

> A link between urban violence and the Old South's code of honor?

When Willie was 13, a family court judge ordered him released. Willie immediately went on a frenzied subway-crime spree, killing two passengers whom he robbed. Ratted on by an accomplice and sentenced in 1978 to a mere five years for his crimes, Willie made history when the New York State legislature passed the "Willie Bosket law" that allowed kids as young as 13 to be tried for murder in adult criminal courts.

Later, convicted of attempted assault and sent to an adult prison, he launched "an orgy of attacks" on the corrections system. He repeatedly set fire to his cell, assaulted guards, and, in 1988, stabbed one. At his trial, where he admitted the stabbing, Willie told the jury: "Many more Willie Boskets are being created within the juvenile and prison systems.... Bosket is only a monster created by the system he now haunts."

Remarkable stories, to be sure. But if we believe Willie's statement that the penal system created him, what has the Southern code of honor to do with his violent life? After neglecting his thesis for more than 200 pages, the author abruptly states that "the old code has been transmuted into the strictures of the street." Huh? It's a pity: There would be a certain what-goes-around-comes-around pleasure in pinning today's urban violence on the group that spawned the Ku Klux Klan. But as we watch the Bosket family generations go by, they seem ever less connected to Southern folkways. Like elusive cavalry leader Nathan Bedford Forrest, the Old South has given its pursuer the slip.

BY HARDY GREEN

Green, who hails from Memphis, is BUSINESS WEEK's Books Editor.

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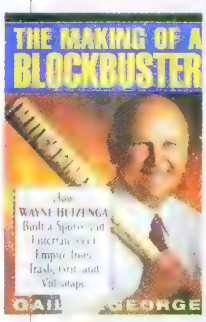
Books

BY BUSINESS WEEK WRITERS

THE MAKING OF A BLOCKBUSTER
How Wayne Huizenga Built a Sports and Entertainment Empire from Trash, Grit, and Videotape
By Gail DeGeorge
Wiley • 354pp • $24.95

WAYNE'S WORLD

King Midas has nothing o Wayne Huizenga—it was th latter, after all, who showed tha garbage could be turned into gold But Huizenga didn't stop there After creating the largest trasl handler in the world, Waste Man agement Inc., earning a bundle o money, and retiring at age 46, th restless Huizenga built an eclecti new empire, providing Floridians with port able toilets, lawn care bottled water, an pest control. Then h purchased video-ren tal chain Blockbuste Corp., which he built into a 3,700-store entertainment conglomerate. Before long, he also owned three professional sports teams and Miami's Joe Robbie Stadium.



Huizenga's rollicking rise is described in detail in *The Making of a Blockbuster* by Gail DeGeorge, BUSINESS WEEK's Miami bureau chief. As DeGeorge shows, Blockbuster would prove to be the most voracious of his businesses, swallowing up rival video chains, music stores, and even pieces of Hollywood studios. "Often Huizenga had so many deals percolating simultaneously... that his own executives couldn't keep up," the author says.

DeGeorge also describes numerous crises faced by Huizenga: the Securities & Exchange Commission probe of Waste Management, a Wall Street analyst's report that temporarily sent Blockbuster stock plummeting, the challenge to expansion brought on by the gulf-war-induced shift in America's TV-viewing habits, and the Blockbuster-Viacom merger that prompted Huizenga to step down as chairman. But he isn't resting yet: Today, Huizenga is building yet another business—once again out of garbage.

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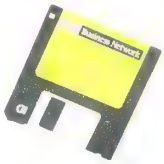

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BY STEPHEN H. WILDSTROM

NOT YET PICTURE PERFECT

Digital cameras are fun but coarse. Wait–they'll get much better

It has been years now since astronomers chucked their bulky photographic plates in favor of electronic sensors called charge-coupled devices (CCDs). Now, the technology that creates images captured by the Hubbell Space Telescope is coming to consumers in the form of digital cameras.

Don't throw your Instamatic away just yet. As a photographic tool, the best of the consumer units, the Kodak DC40, can't hold a candle to an inexpensive point-and-shoot camera. Eastman Kodak's digital camera is handicapped by a fixed-focus lens and a primitive flash. (For about $750 less, you could buy a 35mm camera with autofocus and a zoom lens.) The Kodak CCD's 380,000 pixels also produce a much coarser image than film's millions of grains of silver. And digital pictures are marred by "artifacts," strange aberrations at the edges of objects.

OFFICE HELPERS. Still, the one-pound DC40, the nearly identical Logitech PhotoMan Pixtura, and the slightly smaller, lower-resolution Apple QuickTake 150 can be useful—and, more to the point, fun. In business, the cameras, all of which are built around Kodak technology, would be handy for an operation—say, insurance claims adjustment—that needs a cheap and easy way to get pictures into a database. And you can use the pictures to liven up a newsletter or presentation without the expense and difficulty of working with a color scanner. However, I suspect that most of these cameras will be snapped up by amateur photographers and gadget lovers, often the same folks.

When you click the shutter, the image is captured by the CCD, then transferred to the camera's internal memory. The Kodak and Logitech units hold 48 shots at their highest resolution; the Apple unit, 16. When you get back to your PC, you hook up a special serial cable (or a standard printer cable to a Mac). Once you use the supplied software to copy the pictures on your hard disk, you can clear the camera's memory.

With the pictures in your computer, the real fun starts. For old-fashioned film, darkroom work requires claustrophobic labor with nasty chemicals. Digital editing, done with a few mouse clicks at the comfort of your desk, offers myriad levels of control and transformation not possible in any darkroom. Mistakes waste only your time, not costly paper or chemicals. The results can be displayed as slides on-screen or sent to a color printer.

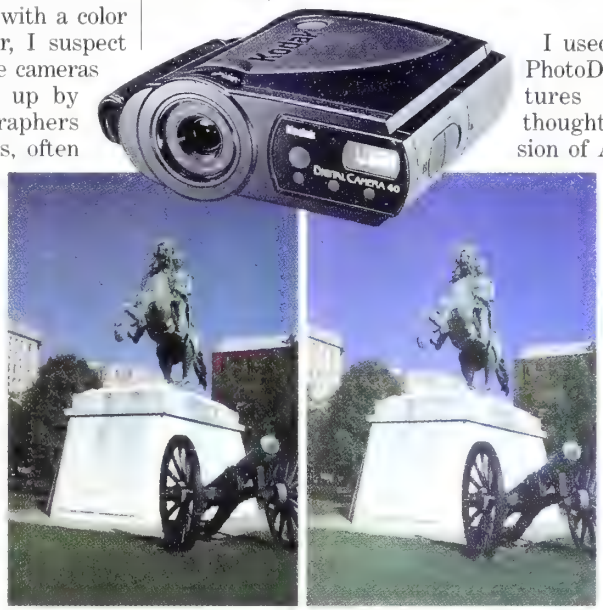
Both the Kodak and Logitech cameras come with PictureWorks' PhotoEnhancer software (Windows or Macintosh for the Kodak, Windows only for Logitech). The program offers easy-to-use tools to manipulate the pictures' brightness, color, and focus.

If you use the SmartPix feature, the program takes its best guess at overall correction for the scene's lighting. But I usually got better results doing the corrections myself. The Apple QuickTake, which begins with lower picture quality, also comes with inadequately bundled software. Its PhotoFlash program (Mac or Windows) lacks a decent way of previewing the effect of any changes, making it hard to use.

Much better than either of these programs is Adobe Systems Inc.'s upcoming PhotoDeluxe. The $89 program is due for the Mac in late November and for Windows sometime early next year, as a stripped-down and far more user-friendly version of Adobe's $500 professional image-editing package, Photoshop.

I used a test version of PhotoDeluxe with the pictures on this page. I thought the original version of Andrew Jackson Washington's Lafayette Park was too blue, too contrasty, and too dark. I used PhotoDeluxe's choose-by-example feature, which lets you look at eight proposed changes and pick the one that looks best. The program also helps you create a variety of such special effects and instantly giving the image an antique sepia look, making it into a psychedelic poster, or altering facial features. Then you can turn your pictures into calendars, greeting cards, and other crafts projects.

Today, digital photography is more a curiosity than a real challenge to film technology. Even $20,000 professional digital cameras can't match the quality of film under most circumstances. With cheaper CCDs and better electronics, though, quality will improve and prices will plunge. Add in some easy but powerful software programs, and amateur photographers will be able to salvage their botched shots—and put their pictures to uses that they can only dream of today.



BEFORE AND AFTER: *Andy Jackson gets retouched*

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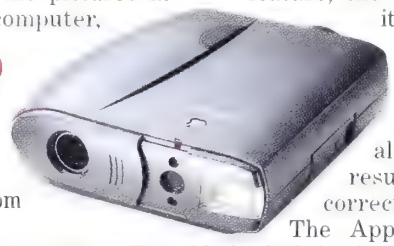

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BY RUDI DORNBUSCH

A STRONG PESO IS JUST WHAT MEXICO DOESN'T NEED

OFF COURSE: Tight-money advice has served Mexico poorly. The right strategy would be to get growth roaring and stop obsessing about inflation

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

The Mexican economic debacle is nearing its first-year anniversary. Political turmoil in an election year combined with an overvalued peso translated into one of the more spectacular currency crashes in monetary history. Ineptness of borrowers and lenders alike sent the peso crashing, and it has not really stopped crashing even now. The value of the currency has more than halved, now hovering at approximately 7.5 pesos to the dollar compared with about 3 pesos last year before the crisis. Gross domestic product is down more than 6%, and politics is more charged than ever.

Despite the gloom in the markets, Mexico is poised to harvest the benefit of a decade of economic reforms. Even at its worst, Mexico will do O.K., with a 3% growth rate by the end of 1996. The big surprise is that it might do much better. The falling peso, which is worrying investors right now, may generate even higher economic growth.

In the 1960s and '70s, when Mexico did grow rapidly, the government was always the driving force. The public sector had plenty of money from oil. When the money was not there, the government could always borrow in world capital markets. But growth derived from private enterprise—financed through domestic saving and investment—was missing. Exports, except for oil, never played a role.

TWO WORLDS. This is about to reverse itself. The economic engine for growth has shifted dramatically to the private sector. But before it can reap the benefits, Mexico must deal with three immediate problems. First is the political crisis. The Institutional Revolutionary Party (PRI) is on the way out. It no longer has the power and money to narrow the gap between the poor south, where guerrilla warfare is rampant, and the rich north, which is modern, productive, and looks to the U.S. as an economic model. Bankrupt Mexico City can no longer bridge the two worlds. President Ernesto Zedillo Ponce de León has five more years in his mandate. It is all but certain that the PRI will not nominate the next President as it has in the past, and the eventual transition to a new regime is unlikely to be smooth. The resulting political instability will probably translate into wariness about investment that is a brake to growth.

The second issue is the appalling state of balance sheets for Mexican banks and businesses. Squeezed by high interest rates that are being used to buttress the weak pes 20% real rates on T-bills and much hig on bank loans—companies, banks, and hou holds are all teetering on the verge of ba ruptcy. Moreover, banks with bad loans their books must pay more for funds, wh forces them to charge even more for g loans. That generates a vicious cycle a turns even more loans sour because debt cannot service their escalating debts.

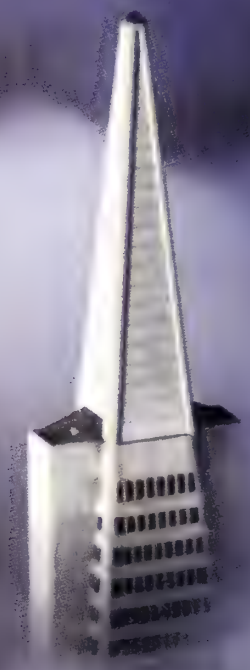
The third problem facing Mexico is the competitive exchange rate. True, the pe has come down sharply, improving the co try's trade balance. Mexico has also beg to pay off its U.S. mega-loan on time. this is not sufficient. If the Mexican econo is to grow rapidly again, interest must co down dramatically to kick-start the priva sector. And the peso should fall even furth to spur exports.

PERENNIAL EXCUSE. Right now, governme policy is to keep Wall Street and foreign vestors happy. That means a strong peso a tight money at the expense of high econo growth. It is exactly the wrong policy p scription. The government excuse is that ti monetary policy is just for the short run, til markets normalize. But when will that b

The other perennial excuse is inflatio Mexico's obsession with inflation was beh the overvaluation leading to the peso crisis 1994, and it is at work again today. But the is a tradeoff. Chile, for example, grew in t past decade at about 6% per year. Inflati over that period averaged more than 15 with far higher rates at the outset. Chile not alone in accepting some inflation as tradeoff for strong growth. Inflation is ba but no growth is much worse.

Mexico can do better. The hard-money a vice has served the country poorly. The rig strategy today would be to get interest rat down and the private economy moving. E ports must be promoted, and the key lies in competitive peso. Investors won't like th strategy, but that doe t really matter. The also don't like bad politics and, on the curre course, would bail out anyway. Fire sale d valuation works: The trade deficit has alrea disappeared. Although the government ma be frantic, the fact is the falling peso co tains the seeds of prosperity. Yes, there wi be inflation—but without growth, Mexico important shift from statism to a mark economy will never yield dividends.

Let's get right to the *point*.



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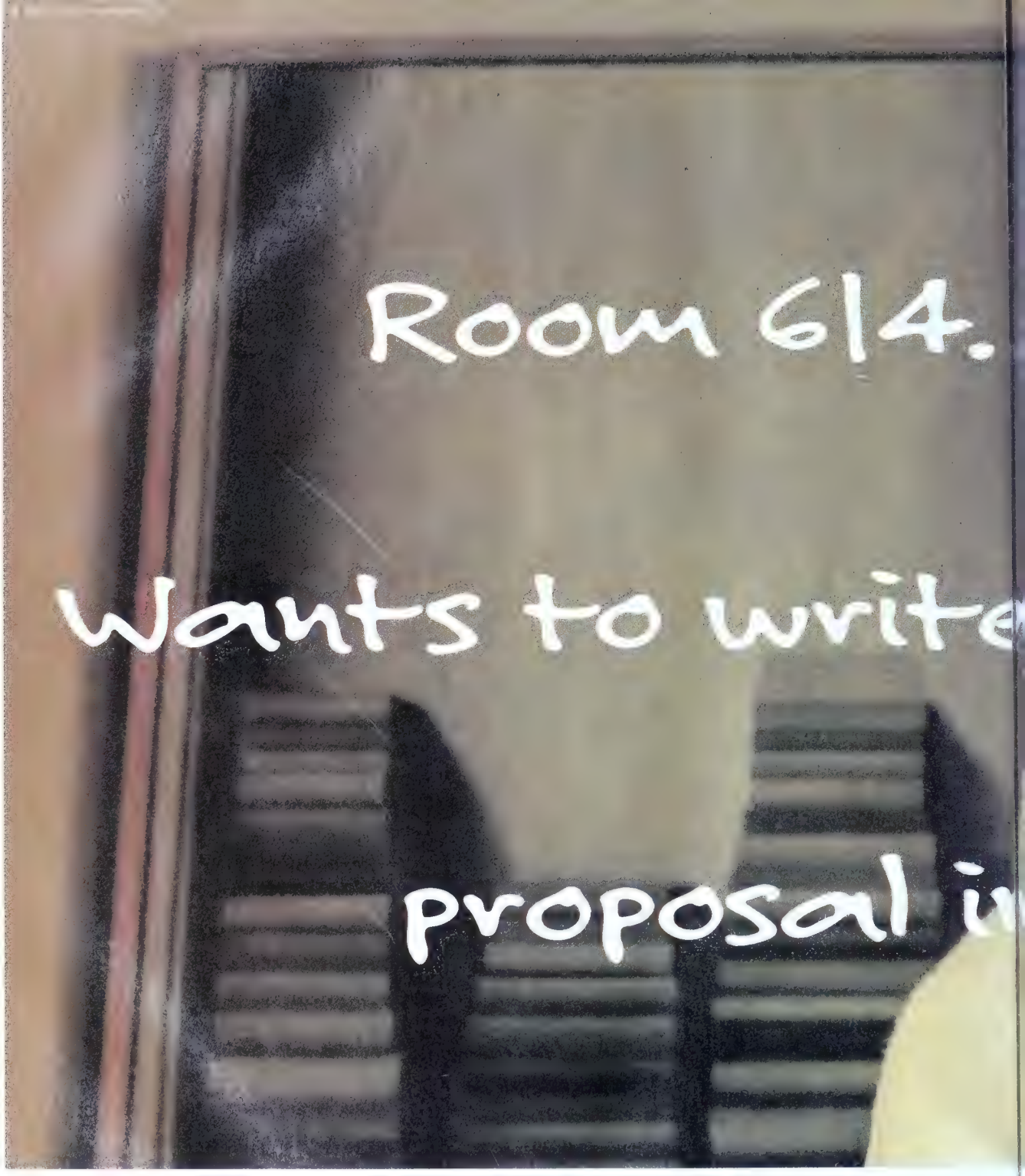

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BY GENE KORETZ

GRAIN PRICES HEAD HIGHER...

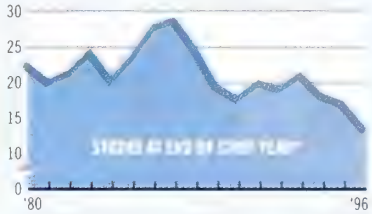
Supplies are the tightest in years

While weakening industrial commodity prices seem to be reflecting a general slowdown in industrial economies, one historic corner of the commodity markets—that devoted to wheat, corn, and other grains—has been on a roll. Wheat prices, for example, recently rocketed to new 15-year highs, and corn prices are now closing in on 12-year highs. And prices for such grains as oats, barley, and rye have at least doubled over the past year.

The proximate cause of the action is a dramatic tightening of supply in the face of growing world demand. Looming behind the market and enhancing its bullish tone is the mammoth specter of China, which has shifted from a grain exporter to a substantial importer within the space of a single year.

Having survived numerous crop scares over the past decade without much damage, big grain users tend to believe that output can be expanded in time to avoid critical shortages. But market analyst Bill Gary of Commodity Information Systems Inc. in Oklahoma City claims they are in for a rude awakening that could make recent price hikes look like the calm before the storm. "We are heading," he says, "into a grain shortage of historic proportions."

WORLD GRAIN SUPPLIES TIGHTEN SHARPLY



▲ PERCENT OF WORLD CONSUMPTION PROJECTED
*WHEAT, RICE, CORN, OATS, AND OTHER COARSE GRAINS
DATA AGRICULTURE DEPT.

To be sure, the world has enjoyed cheap plentiful supplies of grain for 15 years, as technological advances and government subsidies fostered greater output. But low prices, Gary notes, have also bolstered demand—so much so that consumption has outpaced production in seven of the past nine years. The upshot, according to Agriculture Dept. projections, is that global grain stocks at the end of the current crop year (next Sept. 1) will fall to their lowest level relative to demand in the entire postwar period.

The catalyst is China. Between the trade years ending in June, 1994, and June, 1995, China's grain trade balance swung from net exports of 8 million tons of wheat, corn, and rice to net imports of 16 million tons—making it the world's No. 2 grain importer after Japan.

China's leaders, hoping to restore its food self-sufficiency, have unveiled plans to boost grain output by 50 million tons over the next five years. But Western experts are dubious, to say the least. "The tight grain supply situation," says Gary, "won't be alleviated anytime soon."

...AS CHINA'S APPETITE GROWS

Suddenly, it's the No. 2 importer

One economist who worries about China's impact on world grain markets is Lester R. Brown of the Worldwatch Institute. In a new book entitled *Who Will Feed China?*, he outlines a scenario that makes cautionary reading.

Brown likens China's development to that of Japan, South Korea, and Taiwan. Like China, each was densely populated and basically self-sufficient in grain production before it began to industrialize. Within 30 years, however, each had lost more than 40% of its cropland and was importing from 66% to 76% of its grain needs.

The reasons for this shift are no mystery. As industrialization proceeds, cropland is converted to other uses: factories, dwellings, roads, and expanding urban areas. Farm workers migrate to industrial sites. Industry lays claim to scarce resources like water. And rising incomes spur demand for better diets and more living space.

All of these problems, notes Brown, are intensified in fast-growing China, whose population of nearly 1.2 billion is expanding by 13 million a year. Although its land mass is close to that of the U.S., only a tenth of China's land is cultivatable, and many of its cities and rural areas face chronic water shortages. Meanwhile its agricultural productivity gains are slowing.

China's emergence as a major grain importer, combined with rapid population and economic growth in other developing countries, says Brown, suggests that "the world grain market will soon become a seller's market." And that, he fears, could spark economic a political turmoil in Third World natio where the poor already spend much their incomes on food.

AMERICA'S EDGE IN FACTORY PAY

Costs rise in Germany and Japan

Aided by currency shifts, Americ manufacturers got some mode cost relief last year in their compe tion with foreign producers. While hourly compensation for U.S. factory workers rose just 2.2%, to $17.10, the Labor Dept. estimates that such costs in Germany and Japan hit new highs of $27.37 and $21.38 an hour, respectively. Hourly costs in the Pacific Tiger economies rose to about $5.81. The low man in the 24-nation tally was Mexico, with compensation of $2.57 an hour—a number that the fallen pes has dragged a lot lower this year.

LABOR COSTS AROUND THE GLOB

HOURLY COMPENSATION, MANUFACTURING WORKER 1994

GERMANY*	$27.37
BELGIUM	22.91
JAPAN	21.38
SWEDEN	18.81
U.S.	17.10
FRANCE	17.10
ITALY	16.25
CANADA	15.73
BRITAIN	13.68
AUSTRALIA	13.68
SPAIN	11.46
ISRAEL	9.06
KOREA	6.33
TAIWAN	5.47
HONG KONG	4.79
MEXICO	2.57

*WEST GERMANY DATA LABOR DEP

WILL BOOMERS STAY IN STOCKS?

Age can make investors cautious

A new study of 401(k) pension pla investments by benefits consultar Watson Wyatt International finds tha younger participants invest far more c their assets in stocks than their elder Whereas workers age 21 to 40 hol about half of their 401(k) assets in ec uity funds, the equity share drops t 30% among those age 51 to 60, and t just 13% among those over 60.

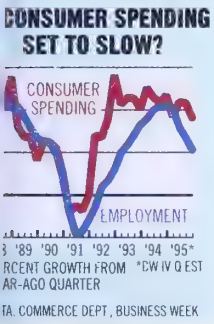
An intriguing question is whethe baby boomers will stay with stocks— and the historically high returns the have produced. With the first boomer about to enter their fifties, an ongoin asset shift out of equities into fixed-in come investments could spell lower re turns for retirees—and less oomph fo stock prices—in the decades ahead.

AMES C. COOPER & KATHLEEN MADIGAN

HERE'S THE ECONOMY HEADING? OOK TO THE LABOR MARKETS

U.S. ECONOMY Want a crash course in the outlook? Take a look at the latest reports from the nation's labor markets. 7 say more about where the economy is headed all the rest of the data combined.

ıe Labor Dept.'s October employment report and its l-quarter update on productivity point to modest-to-gish growth and low-to-declining inflation for the few quarters. That means there is a good chance the Federal Reserve will cut interest rates this er, especially if credible deficit cuts are in hand.



The economy's somber tone will come mainly from consumers. Employment growth has slowed to half its 1994 pace, suggesting that slower income growth will limit the advance in spending. The correlation between job growth and spending gains is pretty tight (chart).

Households had also been adding rapidly to their debt. Consumers aren't choking yet, slower job growth is clearly straining some house-ls' ability to repay. Delinquencies, especially on tgages and credit cards, are on the rise (page 42). inancial strains may lie behind September's relative-mall $5.4 billion rise in credit-card and other con-ıer installment debt. The increase was half the Au-t gain and the smallest since February. Credit-card t rose by the least since last December.

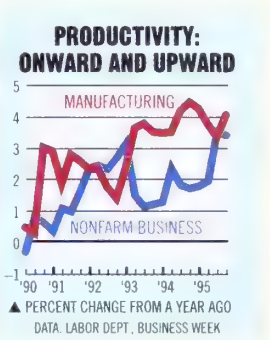
he good news for consumers is that while payrolls expanding more slowly, they are still rising fast ugh to keep the jobless rate down. It dipped to % in October from 5.6% in September.

Vith job markets that tight, wage growth is starting how a little upward creep. And with strong produc-ty gains keeping inflation low, hourly earnings of duction workers are now rising faster than inflation. t's a key reason consumers won't shut their wallets ıpletely during the holidays, but you can bet they demand rock-bottom prices.

ONE ECONOMIST PUT IT: The October job report ects an expansion that has lost its youthful glow but ar from in need of a rest home. Payrolls increased 116,000 last month, and the increase in September ters was revised to a slim 50,000 after an original-eported gain of 121,000. For the past three months, rolls have risen an average of 143,000 per month, far short of the 294,000 monthly rate in 1994.

The October gain would have been higher if not for the strike at Boeing Co., which caused employment in the aircraft industry to plunge by 28,000. As a result, employment in manufacturing dropped by 21,000, but excluding aircraft, factory jobs actually rose slightly. In fact, payroll gains were the broadest since February, as 50% of manufacturing industries added workers.

The strike also dragged down the factory workweek, from 41.7 hours in September to 41.5 hours in October, and it will likely cause October industrial production to look weaker than it should, as well.



As the manufacturing sector struggles to get back on its feet, one potential problem bears watching. Factory inventories rose 0.6% in September, much faster than the Commerce Dept. had assumed when it put together its third-quarter estimate of gross domestic product. That means inventory growth last quarter might have been excessive, making factory output vulnerable to cutbacks in the fourth quarter, especially if consumer demand slows, as the job numbers suggest.

Meanwhile, the service sector, where three-fourths of the jobs are, continues to look healthy. Service producers added 112,000 new employees in October, and they continue to account for nearly all of the payroll additions in recent months.

THE BEST NEWS from the labor markets, however, comes from productivity, or output per hour worked (chart). For nonfarm businesses, productivity rose at an annual rate of 2% last quarter, following a huge 4.9% advance in the second quarter. During the past year, productivity growth has accelerated to 3.4%, an exceptional feat more than 4½ years into an expansion when output per hour typically slows down.

Manufacturing, despite its toils, continues to lead the way. Factory productivity rose an astonishing 6.2% last quarter, the largest quarterly advance in eight years. That jump reflected a 3% increase in output and a 3% drop in hours worked—mainly because of declines in payrolls. Factories refuse to let their productivity slip, even in the face of slower demand. That's great for profits, but workers may feel left out.

Because productivity growth is matching—and in

some industries exceeding—wage gains, unit labor costs are barely growing. Such costs, which comprise most of the price of a product, rose 1.1% last quarter, but over the past year, they are up a mere 0.3%.

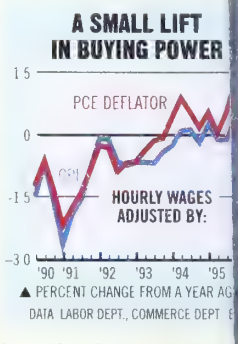
In manufacturing, unit labor costs have fallen 0.8% during the past year, and they have been declining steadily for three years. Looking forward, in this climate the inflation rate cannot rise—and it is more likely to fall.

WHAT HAS BEEN UNUSUAL in this expansion's efficiency spree is the absence of rising living standards to reward workers. Now, there are nascent indications that workers are beginning to reap the fruit of Corporate America's push to lift productivity.

With inflation low, and with the hourly pay of production workers growing a bit faster, real wages are starting to rise. During the past year, hourly earnings are up 3%, while annual inflation, measured by the consumer price index, is running at 2.5%, implying that real wages have risen about half a percent.

That's not a lot, but except for 1986, when crashing oil prices distorted the CPI, it is the largest increase in more than a decade, and a clear break from the past trend. Moreover, since the CPI clearly overstates the cost of living—by anywhere from 0.5% to 2% as several studies show—the boost to real earnings is even greater (chart).

For example, using the price index for consu spending in the gross domestic product accounts, wage gains of production workers look even n impressive—the largest increase in almost decades. Many economists believe this price deflat a better gauge of the cost of living, because it m ures prices of what people actually buy instead fixed basket of items as in the CPI.



Rising real wages have caught the attention of Federal Reserve Chairman Alan Greenspan. While addressing the Concord Coalition, the budget watchdog group, on Nov. 2, Greenspan noted that job jitters have helped to waylay most worker demands for higher wages. But with the unemployment rate so low, that acquiescence, especially among skilled workers, cannot last for long, he sai

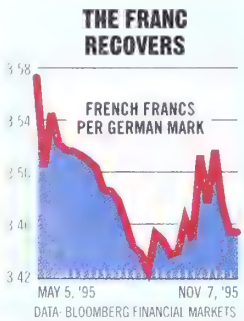
If productivity helps inflation remain on a do ward track, workers can benefit from rising real wa and from a boost in their living standards. Such a said Greenspan, "would be all to the good." That's 1996 may feel more prosperous for a lot of consum than does 1995, even though the economy should gr at about the same pace in both years.

FRANCE

GETTING SERIOUS ABOUT AUSTERITY

The reshuffling of Prime Minister Alain Juppé's Cabinet on Nov. 7 highlights the new fiscal austerity in France.

The Cabinet changes cut the number of members to 32 from 42, but left key ministers in place. The move killed rumors of Juppé's departure and bolstered his hand for the tough spending cuts ahead. President Jacques Chirac recently made a priority of cutting the budget to reach the Maastricht goal of a public deficit equal to 3% of gross domestic product by 1997, from 5% now.



The promised austerity has made way for lower rates. On Nov. 2, the Bank of France cut the rate on 24-hour emergency loans to 6.6% from 7%, and on the next day, it cut the call money rate to 6.19% from 6.25%. After the reshuffling, the BOF cut the call money rate to below 6%, with more easing expected.

The BOF was able to lower rates because of the rising French franc. The franc had lost ground over budget worries as well as fears that the Paris housing scandal would force Juppé to resign. Since late October, though, the franc has strengthened by 1.8% vs. the German mark (chart).

The rate cuts—if they stick—will help the French economy. The latest data on housing starts and consumer spending and confidence show that demand is slowing. Unemployment increased by 28,200 in September, to 2.95 million, while the jobless rate rose unexpectedly to 11.5% from 11.4%. Moreover, an October industry survey showed a fall in business confidence. Third-quarte output grew faster than demand and the resulting inventory imbal ance is subtracting from growth this quarter. Real GDP grew at a 1.6% annual rate in the second quarter, but growth likely will be below that in the second half.

Even before the Juppé shakeup, the next few weeks were considered critical for fiscal restraint. The government must negotiate new contracts with its civil-service unions and force controversial cuts in social-security benefits. Those moves will be much more difficult than reshuffling Cabinet portfolios.

ɔu can say you don't need an organizer, but we have the photographs.

ry picture tells a story. And if the
f your life has become too complex,
it's time for a Wizard.
ıether it's for business or personal
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:. It stores your addresses and phone
ers, tracks your busy schedule and
u create documents and transfer
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ıat's more, some Wizards even
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THE ECONOMY

MORTGAGE TIME BOMB

Late payments are soaring. So what happens if the economy tanks?

Susan, a legal secretary, is barely hanging on. A 35-year-old single mother of three, she is four months behind on her $640 mortgage payment. The reason: Her ex-husband landed in jail earlier this year for repeated driving offenses. That cut off child-support payments that amounted to almost half her income. Now that her husband is scheduled to be released, she is hoping her bank will give her a little more time to come up with back payments. "I just couldn't make it on my income," she says.

It's a hard-luck story. It's also the kind of headache that is sending shivers through the mortgage-lending business. The delinquency rate for home loans made in 1994 spiked to two-tenths of a percent in June, according to San Francisco-based researcher Mortgage Information Corp. That's up 60% from loans made the previous year—and it's almost as high as the delinquency rate during the depths of the last recession (chart). At the same time, consumer credit, now at record levels, shows signs of topping out as family budgets get overstrained. If the two forces play off one another, experts worry that delinquencies could continue to soar. Mortgage lenders "are setting themselves up for a real credit problem down the road," warns Mark M. Zandi, chief economist at Regional Financial Associates Inc.

The spike in weak loans is especially troubling because it is coming during a period of strong employment and economic growth. If troubled loans are soaring now, how high will they go in a weak economy? And rising delinquencies could help send the economy into a slide. If bankers tighten their lending standards, house hunters with iffy finances may be squeezed out of the market. That could hasten a slowdown in homebuilding. The sector already is braced for a 5% drop in 1996, brought on by a shrinking supply of creditworthy buyers who haven't already made their move.

What's behind the trouble in mortgages? In part, it's because the $1.9 trillion mortgage boom in 1992 and 1993 was dominated by established homeowners refinancing their mortgages at record low rates. By early 1994, less-secure new home buyers were flocking to popular adjustable-rate mortgages. When the initially low "teaser rates" of ARMs were ratcheted up to market rates, many new homeowners felt the mortgage equivalent of sticker shock.

Now, the higher monthly payments are beginning to spell big trouble for some borrowers. Total consumer installment debt is now nearly $1 trillion. That's equal to 21.42% of total disposable income, an all-time high, and up from 20.4% last year. And growth in total installment debt slowed in September, indicating that consumers may be maxing out. "A lot of clients just have bad money-management skills," says Vaughn D. Irons, a manager at Consumer Credit Counseling Service of Greater Atlanta.

SALE. Lenders also must shoulder some of the blame. When home lending fell to just $769 billion last year from 1993's record $1 trillion, the industry relaxed its mortgage-loan criteria to attract business. The result: 46% of the private-sector mortgage loans made in 1994 were secured with less than a 20% downpayment—the largest share of such mortgages since 1984. And more than half of those loans were made with less than 10% down—again the largest percentage in a decade. Some bankers kept

Why Bad Mortgages Are On The Rise

Despite a strong economy, the perc of mortgages from last year that a least 90 days late is almost as hig during the 1991 recession.

DATA: MORTGAGE INFORMATION CORP., BUSINESS WEEK

easing home-loan standards into earl 1995, according to a new survey by na tional bank regulators.

In some cases, lenders approve mortgages without requiring a form appraisal of the home. And borrowe with checkered credit histories found easier to win approval. Ilene Fischer, mortgage broker in North Hollywoo Calif., says she had customers with pas loan-collection problems who qualifie for mortgages after showing a clea

Getting Behind

Payment-delinquency rates for the past four years, measured 18 months after the mortgages were originated

DOWNPAYMENTS Thanks to ›me-lending initiatives and mod- e-price appreciation, about one- of home buyers now put less ı% down. That makes monthly ts higher and higher to maintain.

MER DEBT The burden of er debt has reached an all-time ıat makes it difficult for some ıners to keep current on their ge payments.

AGGRESSIVE UNDERWRITING Mortgage originations fell nearly 25% early last year in the wake of the 1993 refinancing boom. So some mortgage underwriters loosened underwriting standards to drum up business.

ADJUSTABLE-RATE MORTGAGES As the interest rate on popular ARMs has ratcheted up, many homeowners are finding the increased monthly tab a tough one to cover.

edit report for just one year—vs. two ars in the past. And the iffy borrow- s often were only required to make wnpayments of 5%. "We've seen some ıns go through that we've been pretty ıazed at," says Fischer.

Another factor behind the shrinking ze of downpayments: laws requiring nks and the Federal National Mort- ge Assn. and Federal Home Loan ortgage Corp., the federally chartered ortgage giants that purchase and secure mortgage loans, to help more low- and moderate-income borrowers who want to buy homes.

Meanwhile, home values in most parts of the country have been rising slowly, if at all. So homeowners looking to move up to a larger house often don't have much equity to put toward a downpayment. With shrinking borrowers' equity, late payments have been rising steadily.

Experts contend that underwriting standards are actually higher now than in the mid-1980s, when delinquency rates where running about 30% higher. But "the key question is how will this higher-risk business perform if the market is stressed?" says Sanford C. Bernstein & Co. analyst Jonathan E. Gray. "No one really knows."

To be sure, mortgage lenders are stepping up defensive measures against doubtful mortgages. Earlier this year, Fannie Mae increased the amount of mortgage insurance—which covers its costs of foreclosing on a home and selling it—required for home buyers putting less than 10% down.

TECH FIX? Some industry veterans insist the move toward low downpayments can be accomplished without a major increase in defaults. They point to an industry shift toward automated underwriting, which speeds up loan-processing time. Fannie Mae and Freddie Mac both have introduced computer-underwriting systems this year that can process and approve some applications in 48 hours. Such systems eventually will allow mortgage lenders to better price their loans, reducing charges for buyers with good credit while potentially increasing those to high-risk borrowers. "The mortgage industry has not been cutting-edge in technology," concedes Freddie Mac Executive Vice-President Michael K. Stamper. "It is now catching up fast."

But some consumer groups worry that the new systems will cut some low-income and minority borrowers out of the market. Concerned about credit quality, both Fannie and Freddie now use a technique called credit scoring. A staple in the consumer-lending business, scoring uses an applicant's credit history to predict the likelihood of repayment. Fannie and Freddie insist the change won't result in discrimination. But others worry that low-income buyers will have a hard time getting mortgages approved. "There may be no incentive for lenders to work with those [borrowers] on the margin," frets Allen Fishbein, general counsel for the nonprofit Center for Community Change in Washington.

For now, though, the bigger worry is that the mortgage industry hasn't done enough to shore up the quality of its loans. Dan Feshbach, president of Mortgage Information, sees little evidence that delinquencies are under control yet. That means that more people such as Susan in Atlanta will experience both the joy—and sometime agony—of homeownership.

By Amy Barrett in Washington, with Nanette Byrnes in Los Angeles.

THE WHITE HOUSE

WITH THE GENERAL OUT, WHERE WILL CEOs LINE UP?

It's back to Dole for most of Corporate America

Edson D. de Castro, chief executive of Xenometrix Inc. in Boulder, Colo., was thrilled by the prospect of General Colin L. Powell running for President. Like many in Corporate America, de Castro was intrigued by the retired general's leadership skills and his mix of fiscal conservatism and social moderation. Now that Powell has ruled out the '96 race, de Castro, whose company makes toxicology testing-equipment company, is glumly mulling the options. He'll probably vote for "the least bad" choice—perhaps Bob Dole, although he views the Senate Majority Leader as a typical politician who "blows with the wind."

Similar sighs of disappointment were heard in executive suites across America on Nov. 8, when Powell bowed out after a tantalizing two-month tease. "To offer myself as a candidate for President requires a commitment and a passion... that, despite my every effort, I do not have for political life," Powell announced before a packed press conference in an Alexandria (Va.) hotel. Although he declared himself a Republican, he also ruled out a Vice-Presidential bid.

CHARISMA FACTOR. Powell's pullout might disappoint executives, but it positively thrills Dole, the undisputed front-runner for the GOP nomination. The two men have similar views on most economic and foreign policy issues, although Dole has veered rightward on social issues in an attempt to court religious conservatives. Now, Dole stands to gain a large part of the 34% of Republican voters who had backed Powell.

The Kansas Senator certainly has friends in Corporate America. "Dole lacks the charisma that is popular in today's world, but he's been a pro-business senator for years," says U.S. Chamber of Commerce Vice-Chairman Edwin Lupberger, CEO of Entergy Corp., a New Orleans-based electric utility. Without Powell in the race, "business will stick with the Establishment candidate, and that's Dole," surmises former George Bush adviser Peter B. Teeley, vice-president for government affairs at Amgen Inc.

Until he took his helmet out of the ring, though, it was Powell who seemed the first choice of business. A straw poll conducted on Sept. 28 at a BUSINESS WEEK CEO symposium found Powell the favorite of 41% of execs. Far behind were Dole at 19%, House Speaker Newt Gingrich (R-Ga.) at 9%, and President Clinton at 4%. "If I had one word to describe why business leaders are attracted to him, it would be 'integrity,'" says William H. Donaldson, the recently retired chairman of the New York Stock Exchange.

Some execs fret that Dole will face an uphill race against a President who is scrambling to recast himself as a centrist. And while Powell was a fresh outsider who could have changed the political dialogue, a Dole-Clinton contest likely to be a rerun of past battles. "back to politics as usual," says John Bachmann, managing principal of ward D. Jones & Co., a St. Louis-ba brokerage firm.

Small-business owners who had b attracted to un-politician Powell ar likely to be happy with the alternati "There hasn't been a lot of excitem about Senator Do says Toby Mali president of Mali Diversified Ltd., Indianapolis trade- velopment firm. "H Big Business—a Big Business is go back to him. Sm business people a up in the air."

CITIZEN POWELL

"Without a middle-of-the-roader like Powell, we're going to see Republicans going farther to the right," says Hasbro's Hassenfeld

And some mod ate Powell back may feel more co fortable with Clint than the right-lean Republicans, who a seen as captives Christian conservative activists. Albin Moschner, CEO of Zenith Electronics Co described himself as "a big supporter" Powell who, while leaning toward Dole, open to backing the President. Says M chner: "[Clinton] shows leadership trade issues and is pro-business."

Likewise, Alan G. Hassenfeld, CEO toymaker Hasbro Inc., says he wo support Dole because "he's placating t far right." Hassenfeld isn't sure whom will vote for but worries that Powell's d cision will further polarize American p itics. "Without a middle-of-the-roader li Powell, we're going to see Republica going farther to the right and the Dem crats staying fairly to the left of ce ter," he says.

Powell, in his statement, highlight some of the same concerns about t GOP's rightward drift. He vowed to "a sist the party in broadening its appea by resisting extremists and by cour ing minority voters. In pursuing th mission, Powell will find himself align with CEOs who are nervous about t cultural-warfare rhetor of Republicans such a Pat Buchanan and P Robertson. For exe down in the dump about Powell's retrea that's at least some co solation.

By Richard S. Du ham and Mary Beth R gan in Washington, wi bureau reports

NO CONTEST

Presidential preferences of 90 executives at a BUSINESS WEEK CEO symposium on Sept. 28

COLIN POWELL	41%
BOB DOLE	19%
BILL CLINTON	4%

COMMENTARY

By Richard Dunham

MESSAGE TO NEWT: THE CENTER IS HOLDING

aren Cassidy, a Louisville (Ky.) college nursing professor, entered the voting booth on ov. 7 with a pointed enda. "The Republicans t a harsh tone national-" she says. "I don't ant Kentucky to follow at."

Republican Revolutionies, take note. Off-year ection returns from aine to Mississippi spell ouble ahead for the GOP its quest for political ominance. Centrist vots abandoned the party droves, thanks largely the Democrats' success portraying House Speaker Newt ingrich (R-Ga.) as the Mad Slasher Capitol Hill. Frets Representative hristopher Shays (R-Conn.): "We e being labeled too extremist, and he leadership] had better figure out way to deal with that."

It won't be easy. In the suburbs, ormally solid GOP terrain, many ving voters were turned off by hat they consider an extreme Reublican social agenda. And in some ncreasingly Republican Southern tates, Democrats capitalized on iddle-class moderates' fears that he GOP will gore Medicare, school unches, and student loans.

AYING THE PRICE? The shift of the entrists was most evident in state egislative races. Democrats won wo special elections in Iaine to regain control of he House, narrowed a ommanding GOP lead in he New Jersey Assembly y three seats, and oust-d Mississippi's Republian lieutenant governor. Ioreover, Democrats ithstood GOP crusades to apture the Mississippi nd Virginia legislatures or the first time since econstruction. Demorats even captured the ocal government in Virinia's wealthy Fairfax ounty, where GOP religous conservatives were ushing an agenda that ncluded the teaching of creationism in public schools. "The Republicans are paying a growing price for what they're doing," says White House pollster Stanley B. Greenberg.

NO REVOLUTION HERE: *A polling place in Virginia*

Republican National Committee Chairman Haley Barbour points out that the GOP managed to preserve its majority in New Jersey's statehouse, and Kentucky voters came within a whisker of electing their first Republican governor in 28 years. But look how Democrats salvaged the election. Instead of attacking GOP gubernatorial nominee Larry Forgy, the opposition mounted a savage television ad campaign that featured grainy photos of a demonic-looking Gingrich. "They were saying, 'Send a message to Newt Gingrich and the Republicans,'" says Forgy pollster David Hill.

National polls echo the sentiments heard in Kentucky. A Nov. 2-4 survey by Public Opinion Strategies, a GOP polling firm in Alexandria, Va., found that 28% of voters strongly disapprove of Congress, in contrast to 24% who are strong Clinton critics. Gingrich in particular is a lightning rod: A preelection poll by Mason-Dixon Political/Media Research in Columbia, Md., found that Kentucky voters preferred Clinton over Gingrich, 50% to 36%. And the President is not exactly a beloved figure.

FRUSTRATION. If Gingrich hopes to expand his power base, he had better make some significant adjustments. First, tone down the harsh rhetoric. The public wants its political leaders to sound reasonable, not like guerrilla fighters. That may mean containing party hard-liners who oppose issues that enjoy broad public support—abortion rights, gun control, and environmental protection. Finally, voters want policy gridlock to be replaced by an honest search for consensus. So Gingrich and Clinton have to stop sparring over the GOP balanced-budget plan and agree to sit down to hammer out a compromise.

The rap on the knuckles that voters gave Republicans on Election Day should be an instructive lesson for a vacillating President Clinton and liberal Hill Democratic leaders as well: After kicking out a Republican President in 1992 and a Democratic Congress two years later, the public is ready to throw the bums out again until it finds the sensible centrism neither party seems to be able to deliver.

Dunham covers politics in Washington.

REVENGE OF THE DEMS

Election results in four key states:

KENTUCKY Democrats successfully made the gubernatorial race a referendum on Newt Gingrich's "extreme" agenda. There's hope for Clinton in a few Southern states.

MISSISSIPPI Republican Governor Kirk Fordice won reelection over a moderate Democrat, but the GOP failed to wrest control of the legislature, long a Democratic bastion.

NEW JERSEY Democrats did pick up three seats, but GOP Governor Christine Todd Whitman still has a big Republican majority in the state legislature.

VIRGINIA Suburban backlash against the conservative Republican social agenda kept the legislature in Democratic hands despite an expensive GOP effort financed in part by the national party and corporate interests.

SLOW START The Taurus' new styling and interi are eye-catching, but dealers have started to underc the price and are pushing Ford for consumer rebate and lease deals

AUTOS

PRICES LIKE THESE CAN'T LAST

Is $20,000 too much for a Taurus? Car buyers seem to think so

When Charles Suritz heads out to replace one of his two Ford Tauruses next year, he won't be shopping for Fords. The Buffalo Grove (Ill.) marketing executive, who paid about $13,000 for his 1991 Taurus, is put off by the sticker on the restyled 1996 model. "When I think of $20,000, I think of the next level of cars," says Suritz. "The Ford Taurus is not a luxury car."

Suritz is not the only Taurus owner shocked by the price of Ford Motor Co.'s updated family sedan. The curvy new model's styling is eye-catching, but its price, which starts at $19,150 and climbs to $24,850 for a fully loaded LX model, is turning off many tire kickers. Sticker shock helped send Taurus sales plummeting more than 16% in October, the car's first full month on the market. Anxious dealers already are pushing Ford to begin discounting the new model with rebates and lease deals.

Talk of price-cutting on the Taurus has Wall Street jittery. In addition to the costs of launching the Taurus, Ford's earnings are under pressure from the introduction of its redesigned F-series pickup and a new Fiesta in Europe (box), as well as Mexico's peso crisis. The auto giant's third-quarter net plunged by 68%, and analysts are slashing fourth-quarter earnings projections. Morgan Stanley & Co.'s Stephen Girsky says Ford may net just $300 million for the period, 80% less than last year, on sales of $27 billion. Even worse: The company's global auto business is likely to post a loss. And the outlook won't improve soon. Ford is warning that weak results will continue into 1996's first or second quarter.

If consumers turn a cold shoulder to the Taurus redesign, it would only add to Ford's woes. The company has $2.8 billion riding on the reinvention of what Chairman Alexander J. Trotman calls "the family jewels": the Taurus and its sibling Mercury Sable. Through October of this year, Ford sold 397,000 of the two models, 78% of them Tauruses. The Taurus, the U.S.'s top-selling car, generates more than 10% of Ford's $73 billion in U.S. auto revenue. But, says John B. T. Campbell III, who just sold his Garden Grove (Calif.) dealership: "They priced car too high and pe are resisting it. It's t for Ford to adjust."

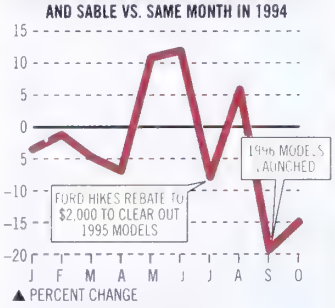
The Taurus got o a slow start wher first came out in 1 And for now, Ford ecutives are resist national price pro beyond the $250 cash incentive offere Taurus leaseholders who upgrade t 1996 model. "We're not worried," s Ross H. Roberts, general manager Ford Motor's Ford Div. Roberts bla the Taurus' sluggish debut on a soft market—down 2.2% this year—a sh supply of Taurus station wagons, fewer sales to car-rental agencies. S he doesn't expect Taurus sales to be strong in November and December they were last year. "Look at us in J uary," he says.

RIVALS ON THE ATTACK. Dealers d want to wait that long. They are str gling to persuade buyers to pay $1, more for the new Taurus than for the one—or $3,000 more counting the $2, rebate that has helped clear out the model. To many, the Taurus' new styl isn't worth the extra bucks. "I didn't the different body design, and I di want to pay the higher price," s Michael C. Trocheck, a retired sch teacher in Denver who just bough discounted 1995 Tau

What would it t to jump-start Tau sales? Dealers hope a discounted lease t drops the monthly p ment under $300, wi out a big downpayme Right now, it takes stiff $2,000 down to cure a monthly payme of about $280 on a ba Taurus. Owners comi to the end of a two-y lease are confront with a jump of $50 $100 in monthly p

WHOA!

CHANGE IN 1995 SALES OF THE FORD TAURUS AND SABLE VS. SAME MONTH IN 1994



DATA: *WARD'S AUTOMOTIVE REPORTS*

if they want to upgrade. "People re turned on by the styling come in ee the sticker and say 'whoa!'" says stown (N.J.) dealer Peter Jarvis. alers already are undercutting the Taurus' sticker price. Roberts says verage transaction price of a base is "in the $18,000 range." If that's oo much, "we sell T-Birds to people priced a Taurus," says Downey (Calif.) dealer Jim Graham. "The T-Bird is a screaming buy for between $15,000 and $16,000 loaded." Meanwhile, Ford is quietly reassuring dealers that it may offer deals on the Taurus eventually. Without them, competitors may begin picking off buyers. Honda Motor Co. is covering the first month's payment for Accord owners who upgrade to a '96 model. And Chrysler Corp. is offering a $269-a-month lease deal on its new Plymouth Voyager minivan. "Every manufacturer is attacking our car," says Roberts. "We're trying to figure out how to keep our dealers competitive."

If Ford doesn't soon come up with a price as alluring as the new Taurus' look, more owners may do what Suritz plans to do: take their business elsewhere.

By Keith Naughton in Detroit

FORD'S BUMPY ODYSSEY IN EUROPE

ngus Frazer first came face to face with Ford's new Fiesta outside his St. Tropez hotel on a cent Sunday morning, and he was t entirely impressed. Although e motoring editor for *Top Gear*, a pular British magazine for car iffs, praised the car's performance, says the front "has got a al down-in-the-mouth ippy look." When the esta hits Europe's showoms on Nov. 16, Ford otor Co. can only hope istomers will take a more sitive view. At $12,000, e new Fiesta is slightly icier than its main rivals, e Volkswagen Polo and e Fiat Punto.

Ford has a lot riding on e new subcompact: The irrent Fiesta is its No. 1 ller in Europe. While her carmakers also are ruggling in the slowrowing European market, ord seems to be having ore trouble than most able). The company surrised analysts last month hen it reported a $320 illion loss in Europe for e third quarter, largely ecause of increased mareting and launch costs. Ioreover, critics say Euroean operations are showg signs of strain as Ford ndergoes a massive orldwide reorganization. Even alks with labor unions representing 2,400 workers in Britain aren't goig well. "It has been tough," sighs David N. McCammon, Ford's viceresident for finance. "Many of us adn't anticipated how weak Europe vould be."

Some industry experts believe the tate of Ford's product mix isn't helpig matters. Ford's No. 2-selling car, he Escort, will not be replaced until the new "world car" appears in 1998. The Escort got a facelift this year—it was originally launched in 1990—but is beginning to show its age against such sassy newcomers as the Fiat Bravo and Renault Mégane. DRI/McGraw-Hill projects Ford's share will slip from 12% now to 11.5% next year.

HOSEDOWN: *Will buyers take to the new Fiesta front?*

WARNING SIGNS ON THE CONTINENT

RED INK Higher marketing costs pushed Ford Europe's third-quarter loss to $320 million, vs. a loss of $37 million for the period last year

NEW MODEL Reviewers are giving the redesigned Fiesta, due out on Nov. 16, high marks for ride and performance but poor grades for looks

SUPPLIERS Parts makers are fuming over Ford's plan to freeze prices paid for components until 2000

LABOR Ford and its 22,400 union workers in Britain are at odds over pay and working hours

DATA: BUSINESS WEEK

Ford faces problems on other fronts as well. Labor talks could turn sour when they resume in Britain on Nov. 15. Workers are asking for an immediate 10% pay hike, plus a two-hour reduction in a 39-hour workweek. But the company's offer is much lower, at only 3% a year for two years, and it opposes trimming work hours.

Some Ford suppliers, meanwhile, are fuming at a recent company dictate to freeze component prices for five years. One supplier says Ford just informed him that he must cut prices by 5.9% next year. With inflation in Britain at about 3.5%, that adds up to a hefty 9.4% price cut. Faced with steel price hikes, "clearly we've got some tough negotiations ahead with Ford," adds Ken Worthing, managing director of Milton Keynes-based Belsize Engineering, which supplies drive trains.

HOT ENGINES. The transition to Ford 2000—the company's radical attempt to break down geographic barriers and produce cars for the global market—also may be upsetting Ford's European operations. In the new setup, Europe becomes top dog in developing small and midsize cars. As a result, some 500 managers have been transferred, either from the U.S. to Europe or from Europe to the U.S., in the past nine months. "We're not seeing a clear, well-defined organization," says supplier Worthing. Ford admits some confusion exists but says it's being worked out.

The company has its bright spots. The Fiesta and other new models will have hot new engines—something Ford has neglected in the past. And with next year's launch of a new city car, code-named "Ka," Ford will beat Volkswagen and General Motors Corp. into that promising market. But for now, the new Fiesta is going to have to carry a big load.

By Heidi Dawley in London, with Keith Naughton in Detroit

DEALS

COMPAQ HOOKS UP WITH A NETWORKING WIZARD

NetWorth's McHale and his fast gear may help nab IBM clients

For two years, Compaq Computer weighed a move into the booming networking business. Employees gathered company data, romanced more than a dozen prospective acquisitions, poured over market projections and products. In fact, they did so much analyzing, prospects wondered whether Compaq would ever make up its mind. They're wondering no more: In two quick moves, culminating with its Nov. 6 bid for NetWorth Inc., Compaq grabbed the people and products needed to launch itself into the flourishing $4 billion market for providing computer networks to company branch offices and departments.

The purchases represent the biggest financial gamble in Compaq Computer Corp.'s 13-year history. The Houston company will spend about $400 million to enter the business for high-speed network gear. The centerpiece of its strategy is NetWorth, which holds a leading 44% share of the $46 million market, according to market researcher Dell'Oro Group. NetWorth even is profitable: It earned $645,000, before one-time charges for an acquisition, on sales of $55.5 million in the year ended June 30.

RECORD OF FAILURE. Just three weeks before moving in on NetWorth, Compaq announced a deal to buy Thomas-Conrad Corp., an Austin (Tex.) maker of network products for personal computers. Add in development deals struck earlier this summer with Cisco Systems Inc. and Germany's ITK Telekommunikation, Compaq has amassed the technology to offer a complete network package to corporate customers (table).

But can Compaq mold these disparate pieces into a winner? The industry track record is inauspicious: AT&T and Tandem Computers Inc. both failed in efforts to merge computer and networking companies. Compaq has a big advantage, though: It is the market leader in selling PC servers, which hook together networks of PCs. Compaq hopes that by selling networking gear to its server customers, it can pick off IBM's huge base of clients in departments and branches, says Group Vice-President Doug Pushard.

McHALE: *A technology seer nimble in the marketplace*

In that gambit, Compaq may be gaining an ace in NetWorth Chief Executive John F. McHale, who, along with Pushard, will run its networking business. The ex-Texas Instruments Inc. engineer started the Irving (Tex.) company 10 years ago and deftly led it through several remakes. NetWorth started out as a developer of proprietary network p ucts and shifted into standard netw and high-growth niches such as netw switching. "John has always had ability to make changes to NetW quickly enough and seize market op tunities," says Terry Klein, a Dell C puter Corp. vice-president who pr ously was a sales vice-president NetWorth.

GOOD TIMING. More than a market s McHale invested heavily in robotic duction lines to keep costs low. T helped his company win some big tracts. One major coup: snaring IBM a customer two years ago. Big B now accounts for 22% of NetWor revenues. With Compaq acquiring N Worth, analysts expect to start buying from 3C Corp. instead.

McHale, who will j Compaq as a corporate v president, expects Comp imprimatur to give N Worth's networks, which at 10 times the speed standard Ethernet netwo a major sales boost. H need every edge to beat rivals such as 3Com, B Networks, and Cabletr which also make high-sp PC networks. But the c bination of Compaq's sa reach and acquired produ "puts us squarely in a position reshape the competitive landscap McHale says.

Compaq's best buyers may be r for a change, too. Many insurance, ba ing, and retailing companies are n updating their branch-office compute and networks. In the process, custom such as Chase Manhattan Bank a weighing a shift from IBM's OS/2 to M crosoft Corp.'s Windows NT operati software—giving Compaq an openi "The timing is right," agrees Richa Villars, an International Data Corp. a alyst. Now, Compaq just has to succe where many other giants have failed the past.

By Gary McWilliams in Houst

Compaq Builds a Network

NETWORTH The PC company said on Nov. 6 it would pay $372 million for this $55 million maker of high-speed local network switches and PC cards.

THOMAS-CONRAD Compaq is acquiring this $50 million manufacturer of local-network cards for PCs. The deal is expected to close in November.

CISCO SYSTEMS The two have a joint development deal to build low-cost gear connecting server computers to networks. First products are due late this year.

ITK Compaq has a development deal with this German maker of digital modems that link portable PCs to servers. Products are in development.

TEXAS INSTRUMENTS The two are jointly designing high-speed networking chips. Their first products were announced this fall.

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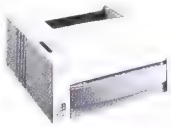

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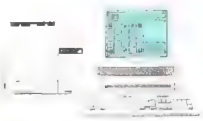

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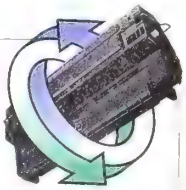

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Canon

EXECUTIVE SUITE

ALMOST DOWN TO THE CORE?

Apple is facing a disturbing management exodus

CUPERTINO SHUFFLE: *Will management turmoil spread through the ranks?*

Market share is up at last, and the rumored takeover bids haven't materialized. Still, something is seriously amiss at Apple Computer Inc. In recent weeks, the personal-computer maker has suffered the worst exodus of top executive talent since John Sculley was ousted as CEO two years ago. And some of those remaining are questioning the company's ability to reverse a year-long slide. Says one: "With the current cast of characters, it won't get fixed."

There surely are holes in Apple's infield. Chief Financial Officer Joseph A. Graziano announced his resignation on Oct. 2 over a dispute with CEO Michael H. Spindler. David Willcocks, vice-president for enterprise and government marketing, followed on Oct. 30. Three days later, worldwide marketing chief Daniel L. Eilers found himself out of a job, following a Spindler-devised reorganization. And Dave S. Manovich, vice-president for consumer retail sales, departed on Nov. 7.

"SERIOUS LOSS." The talent flight, especially that of Eilers, leaves Spindler with no clear No. 2—and little operations expertise near the helm to complement his skills as a strategist and marketing expert. "Eilers is a serious loss; he understands the culture better than anyone," says Apple watcher Tim Bajarin of Creative Strategies Inc. While Eilers himself says the restructuring "is what is best for Apple," the vacuum is more than evident to other executives: At a two-hour meeting in late October, a small group of sales and marketing managers urged Spindler to hire a chief operating officer to handle daily duties. "My view is he needs help to run the company," says one executive.

Spindler, who declined to be interviewed, has hired Russell Reynolds Associates Inc. to find a new CFO, according to another recruiter who bid for the work. But he has no plans, say insiders, to reestablish a COO slot—the position he held before replacing Sculley in 1993. A new CFO alone may not give Apple the management depth it needs. "Apple's in the unfortunate position of having to increase market share and profits at the same time," says Hambrecht & Quist analyst Todd Baker. "You need a deep, experienced team to get through times like this."

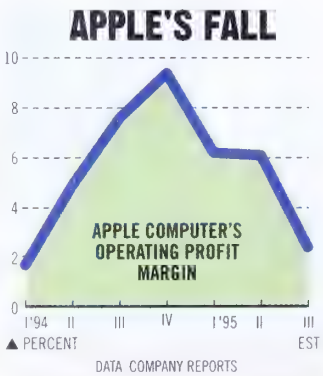
In some ways, Apple is past the worst. With demand high for its Macintosh computers, it faces a golden opportunity to slow the momentum of Microsoft Corp.'s Windows 95. It already appears to be putting a dent in its $1 billion o backlog. The p shortages that h dogged the comp are easing, and it ished the Septem quarter with $ million in finished inventory, in posi to take advantag the holiday r Alex. Brown & S Inc. analyst Phili Rueppel forec Apple's Christ quarter sales of billion, vs. $2.5 bil a year ago.

LONELY AT THE TOP: SPINDLER

Spindler's 1996 goal: to gain an a tional percentage point of share in hard-fought U.S. market, by focus more on the home PC market and Apple's traditional strongholds in dia applications. But that's not the d tic action Wall Street is looking for. stock market was clearly amenable rumors of a possible takeover by H lett-Packard Co. on Nov. 7: The go drove Apple's share up 10% in days, to 39%. Sanford C. Bernstein Co. analyst Vadim Zlotnikov thinks stock could hit 50 if Spindler sold pieces of the business or created j ventures for non-Mac products, such the handheld Newton. "Given that ple has already commercialized th products, now is a good time to st extracting their value," he says.

DISARRAY. With Spindler still clearly control, though, that probably won't h pen, insiders say. More likely, mana ment turmoil will continue to spr through the ranks, including the com ny's coveted engineering corps. Alre key architects of the highly success Power Mac line such as Jon M. Fi Gary G. Davidian, and Carl C. Hev have left. And many managers are gr ing tired of the disarray, says one he hunter who has found willing listen within Apple. "Mor is not high for the people—there's many meetings and orgs," he says. Adds executive at Mac clo maker Power Comp ing Corp.: "We've a stack of résumé Unless Spindler con up with something rally disillusioned ple-ites, he may plenty more.

By Peter Burro in San Franci



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THE MILITARY

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You call this consulting firm when you want to turn around a war

General Douglas MacArthur had it wrong: Old soldiers don't die or fade away—they go high tech. Some 2,000 of the nation's military elite have enlisted in a database owned by Military Professional Resources Inc. (MPRI) in Alexandria, Va. As Information Age mercenaries, they're doing everything from briefing Swedish troops on Operation Desert Storm to coaching U.S. officers on managing GIs.

The eight-year-old company, located within a Scud missile's range of the Pentagon, provides an array of services to clients domestic and foreign. With U.S. defense spending way down, the privately held concern estimates that overseas sales will account for nearly 40% of billings this year, helping double revenue, to almost $12 million. There are some risks to that growth strategy: Earlier this year, MPRI tactical expertise was credited with helping Croatia gain militarily against Bosnian Serbs. The company was also blamed for helping establish a worrisome new power in the Balkans.

CROATIAN TROOPS: *MPRI says it got more credit, and blame, than it was due*

Most consultants would exult in the spotlight, even if undeserved. Not MPRI. Company officials insist its Croatian contract—licensed by the State Dept.—was simply for sociology lessons on turning communist-trained soldiers into more democratic troops. "People think we're doing something we're not doing," fumes Harry E. Soyster, vice-president for international operations and former head of the Defense Intelligence Agency. Some analysts say he has a point: MPRI has too high a profile to run a covert operation that would violate the arms embargo in the Balkans, they contend.

SURPRISE TURN. The Pentagon has trained foreign officers for years, but privatizing and exporting U.S. military knowhow is a new twist. Classroom training may not be as swashbuckling as the forays of mercenaries. But "it's a real franchise, if you can find a customer," says Loren B. Thompson of the Alexis de Toqueville Institution, a conservative think tank.

Training foreign armies wasn't the plan when MPRI was launched in 1987. The company was the brainchild of a group of retired Army officers brought together by a consultant. Their mission: review a report on using computers to teach soldiers. The former generals had a field day making suggestions—and realized their military experience was a valuable commodity. Unlike some other Beltway consultants, they set out to sell "a bona fide product to the government," says Robert D. Wood, MPRI's chief operating officer.

These days, MPRI cruises cyberspace for new business opportunities offered by the Defense Dept. on the Internet. The hourly rates for the company's consultants are a trade secret, but they're a fraction of the $450 an hour Wall Street lawyers charge. That has helped MPRI snare a series of competitively bid Pentagon contracts for such things as writing field manuals and analyzing the cost-effectiveness of storage equipment.

To help expand the company's rea overseas, MPRI brought in Soyster a former Army Chief of Staff Carl Vuono, a mentor of Colin L. Powell a architect of the Army's moderniz training regime. MPRI advertises in m itary journals for foreign clients.

THRIFTY MOVE. Woods admits the ve ture might never have been launch if its founders had foreseen the radi changes the defense business wou undergo. But Soyster is confident th the company, which has grown from 5 165 full-time employees, can survi even more defense cuts. He figures it' lot cheaper to hire gray-hairs from MI than to have the Pentagon fly in own commanders—with their families from Japan or Berlin. "You get th same or greater experience," he say MPRI isn't exactly profit-gouging eithe It expects travel costs and paymen to specialists to limit profits to a minu cule $230,000 this year.

Of course, MPRI's success depends Washington and other capitals havin some cash to spend on its services. Th company is betting that, like the o soldiers on its payroll, the global mark for its information and experience wo fade away anytime soon.

By Stan Crock in Washington, wi bureau reports

Recent business for Military Professional Resources

TAIWAN AND SWEDEN Held seminars on Operation Desert Storm and the lessons to be learned from the U.S. victory over Iraq

CROATIA Designed courses for the armed forces on how to convert from the communist armed-forces model to a democratic one, including how the military should deal with elected civilian leaders and how officers should treat enlisted soldiers

PENTAGON Wrote manuals on such issues as joint tactical-missile defense and analyzed cost-effectiveness of an equipment-deployment and storage system

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FOOTBALL

END RUN IN CLEVELAND, STRAIGHT ARM IN DALLAS

Is the once orderly NFL catching the Baseball Disease?

The Browns are bailing, and Cleveland is steamed. Fans chanted epithets at a home game on Nov. 5 after word of the team's move to Baltimore leaked out, and callers flooded local talk shows to complain that the city hadn't been given a chance to save its franchise. "They're not my team anymore," says taxi dispatcher Joe Strejnowski. "I don't know if I should turn my sweatshirt inside out or burn it."

Deal with it, Cleveland. The reality is, the economics of pro football are changing fast, forcing an end to the arranged stability that has made the sport a remarkably peaceful and profitable enterprise for decades. Now, the National Football League faces the prospect of creating two classes of teams, much as baseball has: those with big money that can afford to sign the best players and make even bigger profits, and others that barely scrape by.

JONES AND MODELL FANS The Cowboys owner is countersuing the NFL over licensing; Modell sees big bucks in Baltimore

Art Modell cares very much about making money. That's why on Nov. 6, the Browns owner announced that his team would pull up stakes after 49 years in Cleveland. The Maryland pastures definitely are greener: Modell will get up to $75 million up front for relocating next season. And in 1998, his team will move to a new, publicly financed, $200 million stadium whose 108 luxury boxes and 7,500 club seats, plus concessions and parking, should provide the team with $20 million a year, three times what he says it gets now.

"ENORMOUS DEBT." Modell says that as player salaries have soared, he has dropped $21 million in the last two seasons and millions more since 1988—despite consistently strong fan support. "I had to do what I had to do," he says. "We built up enormous debt."

The Browns aren't the only team looking for the windfall that a change of scene can bring. This year, the Los Angeles Raiders skipped to Oakland, and the L. A. Rams to St. Louis. And as football's owners gathered for a meeting in Dallas on Nov. 7, there was talk that the Houston Oilers might soon pack their bags for Nashville and the Tampa Bay Buccaneers for Orlando.

The owners say they need revenue to offset the rising costs created by free agency and a salary cap. Proceeds from the league's $4.4 billion in television contracts, which are shared equally by all 30 teams, are fixed through 1997; similarly, ticket sales, about $1.8 million per game last year, can't produce much growth.

That means stadium revenue—luxury boxes and the like—has become the "key to marshaling financial resources needed to acquire players and build winning teams," says Paul J. Much, senior managing director at Houlihan, Lokey, Howard & Zukin, an investment bank that specializes in NFL team valuations. A decade ago, stadium sales accounted for less than 5% of total revenue among teams that collect those proceeds, says Much. Today, such receipts make up an average of 25% of those teams' totals.

Here's the problem. To attract the best free agents and to keep star players from leaving, teams increasingly turning to guaranteed signing bonu that allow big contracts to slip un salary caps. But such payments requ big cash up front. NFL teams are exp ed to dole out $400 million in sign bonuses this year, four times what t paid in 1993. "Free agency came alo and the whole landscape changed. had to have cash, available cash, to s players," Modell gripes.

BIG DEALS. Jerry Jones, the flamboy oilman who paid $140 million for the D las Cowboys in 1989, has shown league how to play this new game. has signed multimillion-dollar market pacts for his Texas Stadium with likes of Nike, Pepsi, and American I press. Such deals allowed him to pay nuses exceeding $40 million this year

Jones's renegade antics have thre ened the NFL's clubby security. None his sponsors have deals with the leagu NFL Properties Inc. licensing arm, whi is why the NFL has sued Jones for $3 million. On Nov. 6, Jones countersu for $750 million, claiming that the NFL an illegal cartel "that has stymied com tition between the clubs."

Indeed it has—and that was esse tially the intent. Now, though, owne who can control stadium revenue have undeniable advantage. "The old guard saying, 'We're not necessarily for th but if they're going to do it, then w not me, too?'" says Andrew Zimbalist, economics professor at Smith Colleg The result will be a jolt for fans, Cleveland is discovering.

By Stephanie Anderson Forest, w Jeff Hoffman in Dallas and Zacha Schiller in Cleveland

IT'S NOT IF, I

Introducin computer i you can't a overlo

Just don't have the time for power problems on your PC? Don't worry. They'll always make the time for you. It's not if a power problem will occur, but when. Due to household appliances, poor wiring, bad weather or even other office equipment, power problems are as inevitable as death and taxes. You can't run, but you can hide... behind APC.

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suppressors which protect solely against hardware damage are literally powerless to protect your PC from data loss.

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Bulletproof your PC with APC's full line of protection

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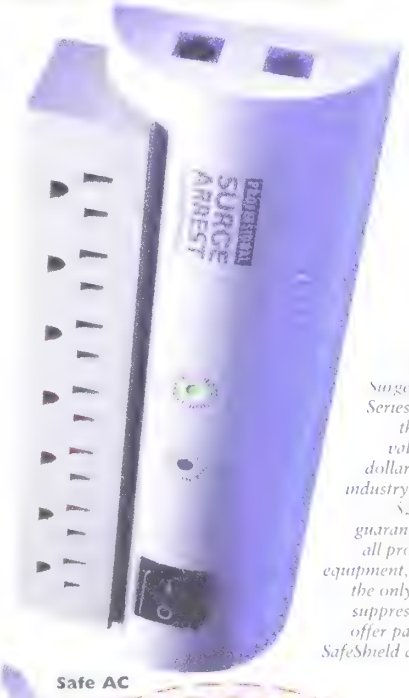

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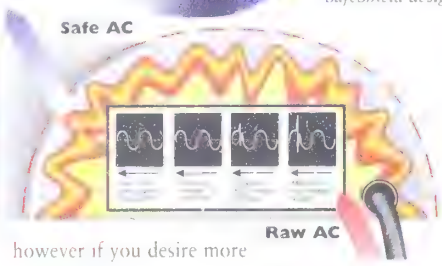

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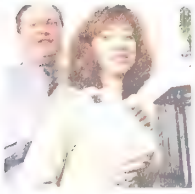

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:D BY KEITH H. HAMMONDS

HING WELLS ILD UP ITS BID

S FARGO'S $10.6 BILLION was pretty attractive—ɔt what First Interstate n mind. So on Nov. 6, weeks of rumored talks putative white knights, Interstate revealed a -approved agreement to ɔ with Minneapolis-based Bank System instead. lue: $10.2 billion. "Abso- compelling," First state Chief Executive ım Siart raved. Inves- vere less impressed. "It's tunate the First Inter- board isn't thinking shareholder value," says st Thomas Brown of ldson, Lufkin & Jenrette rities. They want Wells eeten its offer, and analysts say a new bid could be up to $820 million higher.

CIRRUS' INVENTORY SNAFU

JUMPY, JUMPY, JUMPY. ON Nov. 7, chipmaker Cirrus Logic sent technology stocks reeling with its news that fourth-quarter sales growth would dip. Shares of Cirrus itself dropped 30%, to $28. Cirrus' problem: One bullish customer, probably Packard Bell, overestimated demand for its personal computers, then cut chip orders when sales failed to materialize. Rather than showing underlying weakness in PC demand, though, analysts suggest it says more about the difficulties of managing inventories amid red-hot growth.

HUIZENGA BIDS ADIEU TO VIACOM

NO ONE EXPECTED WAYNE Huizenga to play second fiddle for long—and indeed, the former Blockbuster Entertainment chief executive announced his resignation Nov. 6 as vice-chairman of Viacom International, which bought Blockbuster a year ago. The surprise: He also gave up his seat as a Viacom director. Huizenga wants to spend more time on other business interests, the company said. Certainly, he has plenty of those, including three Florida pro sports teams and Republic Waste Industries, a vehicle for his entry into service businesses. Analysts theorize that leaving Viacom's board may allow him to cash in some of his 6.9 million Viacom shares without the required insider disclosure.

A TRICKY TRADE FOR USAIR EMPLOYEES

USAIR'S EMPLOYEES HAVE proved doggedly unwilling to make the wage concessions that would shore up their troubled carrier. Would they accept substantially lower paychecks for a new owner? They'll need to if United Airlines is to make an offer to acquire USAir, says UAL Chairman Gerald Greenwald. United employees took pay cuts averaging 15% last year; he likely would demand at least that much from USAir workers. Greenwald told analysts on Nov. 7 that no final decision has been made about making an offer—but UAL executives have promised they will fish or cut bait by mid-November.

THINKING MACHINES THINKS SOFTWARE

THINKING MACHINES, WHICH flamed out in 1994 trying to pioneer low-cost supercomputers, is set to reemerge from its year in Chapter 11—as a software company. Under a plan filed on Nov. 8, the Bedford (Mass.) company will market its proprietary software to computer makers looking for a jump start into massively parallel processing. That's the technology, based on hundreds of chips working in tandem, that Thinking Machines once tried to sell. Customers did not arrive in droves back then. This time, though, Thinking Machines has a strong partner: It will package its Global Works program with servers sold by Sun Microsystems.

HEADLINER: PAUL O'NEILL

SEE WHAT A LITTLE SHMOOZING GETS YOU

When Alcoa Chairman Paul O'Neill has a question about computers, he often as not calls up a well-placed expert: Hewlett-Packard Chairman Lewis Platt. For years, the two have brainstormed about computers and manufacturing. Indeed, from his lofty post, Platt personally handles the Alcoa account. "He gives me quarterly reports," says O'Neill.

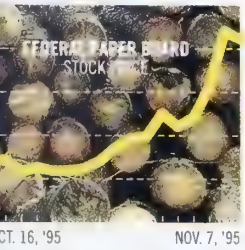
This week, Platt's relationship paid off big. Alcoa announced a $150 million investment in a communications network linking its far-flung operations—from mines in Australia to laptops in Tacoma, Wash.—built largely around HP technology. While banks and computer outfits have created similar networks, most companies in basic industries are only now piecing together rudimentary webs. The Alcoa system will replace existing computers, many of them Apples, with 10,000 HP workstations running Microsoft's NT operating system, along with 450 servers. HP will be operating the system—which should mean that O'Neill and Platt will be exchanging plenty of E-mail.

By Stephen Baker

CLOSING BELL

PULP FICTION?

, it certainly looks suspi- s. In the nine days before rnational Paper announced $2.7 billion acquisition of eral Paper Board, normally guid Federal Paper shares t up 27%. IP says Federal roached it about a deal und the time the stock ted its spurt. But Federal's ilability was no secret, s one analyst: "Federal has n the perennial buyout didate." Federal says it aged investment bankers nths ago. "You know what pens," says an executive. gets out."



DATA: BLOOMBERG FINANCIAL MARKETS

ET CETERA . . .

- Cordis caved, agreeing to Johnson & Johnson's hostile $1.8 billion takeover.
- Lee Iacocca sued Chrysler. He wants to exercise stock options worth $42 million.
- Baseball won a $1.7 billion, five-year television rights deal, richer than expected.
- The Thriller sells out: Sony will buy Michael Jackson's rights to Beatles songs.

What le
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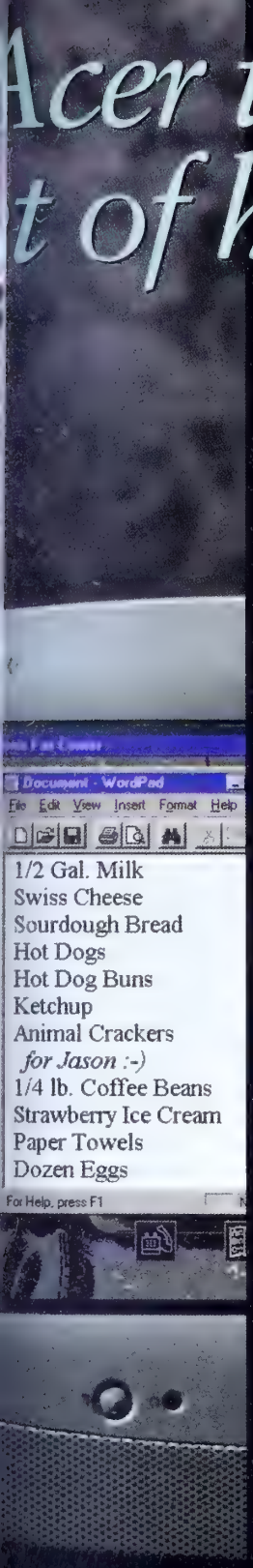
Acer to totally redesign t of home computing?



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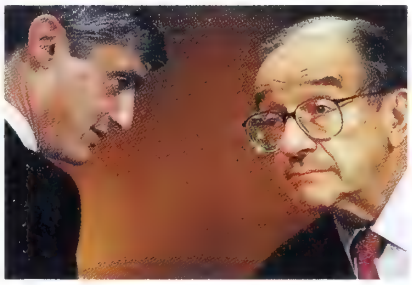
ITED BY OWEN ULLMANN

VHY EVERYBODY THINKS UBIN IS CRYING WOLF

n the battle over the federal debt ceiling, rhetoric fogs re-lity. Take the GOP attacks on Treasury Secretary Robert E. Rubin, the Clinton Administration's chief strategist for ding off a default. On Oct. 30, Senate Majority Leader Bob e (R-Kan.) assailed Rubin for being "so political that he sn't have a lot of credibility." But the next day, Dole ed the White House for a meeting on the issue—and in-ed Rubin attend. "That's just the way Washington works," s a bemused Rubin aide.

The danger now is that Washington won't work the way it ays has. The showdown pits untested players: Rubin, a ll Street millionaire with little experi-e in rough-and-tumble politics, against publicans who insist a few missed debt ments are a small price to pay to force sident Clinton to accept their balanced get. Rubin's inexperience and GOP stub-nness have brought the crisis to the k: Without a hike in the debt ceiling, the asury will run out of cash on Nov. 15, perhaps miss $102 billion in payments, nging the markets into the unknown.



WITH GREENSPAN: *Shared instinct*

ED SIGNALS. Many on Wall Street are betting on Rubin, the former co-chair-n of Goldman, Sachs & Co., to sidestep disaster. They dis-nted default threats and bid up U.S. securities until Nov. 6, en the Treasury postponed the sale of $31.5 billion in notes, ling traders. "Thanks to Rubin, this Treasury is more at-ed to the vibes in Wall Street," says David C. Munro of h Frequency Economics, an investment consultant. "There's tty high confidence that he can head off the crisis."

But Rubin's handling of the politics of default hasn't in-red the same confidence. Since July, he has lobbied the Hill extend the debt limit but has failed to communicate his se of urgency. At a late-October meeting, recalls Represen-ve L. F. Payne (D-Va.), Rubin's dispassionate argument s that "the risk/reward ratio of default is way out of whack." Rubin admits to a "measured" tone—until Nov. 8, when he dispatched aides to charge that "simply outrageous" GOP maneuvers are "greasing the skids for a default."

GOP hard-liners haven't shown similar restraint. Many of the party's 73 House freshmen swore they would never vote for any hike in the debt ceiling, even though their budget plan cre-ates $1.8 trillion in new red ink for Treasury to finance. "Some of them still don't understand that," sighs a GOP staffer. The Re-publicans trotted out a panel of respected Wall Streeters to ar-gue that bond buyers would ignore a short break in Trea-sury's payments if the reward was a balanced budget by 2002. Some argued that a brief default would even lead to a decline in interest rates, as bondholders take heart that Washington is serious about balancing the budget.

BACKUP HELP. At crucial moments, Rubin has gotten a credibility transfusion from Alan Greenspan. The Fed chairman stressed the dangers of default in Hill tes-timony and in private talks with Republi-cans. And he backed the Treasury's esti-mates on when the well will run dry in a key meeting with Dole and House Speak-er Newt Gingrich (R-Ga.). Still, some Ru-bin fans fret that the Fed chief hasn't been public enough.

The showdown is fast approaching. The House was set to vote on Nov. 9 to raise the debt ceiling until mid-December. But the measure also restricts Rubin's ability to tap $1.2 trillion in trust funds—cash Wall Street is counting on to en-sure bondholders get paid even if Congress limits borrowing.

Rubin says he'll advise Clinton to veto any debt-ceiling hike with strings attached. Then, he says: "The choice is up to them: either separate the debt limit from the budget de-bate, or put the country in a very dangerous financial situa-tion." Maybe, but until Wall Street shows some real con-cern, Rubin has a hard sell.

By Mike McNamee

CAPITAL WRAPUP

ALLING THE KETTLE BLACK

For several years, the ABC news ow *Prime Time Live* has been spy-g on congressional junkets paid for business lobbyists. But don't look r the network to turn its undercov-cameras on itself. Congress Watch, Naderite watchdog group, has cited e National Association of Broad-sters, of which ABC is a member, as top sponsor of such junkets. The AB, which has a lot at stake in the lecommunications-reform measure ending in Congress, has paid for trips to Hawaii, Amsterdam, and Las Vegas for members of the House tele-com subcommittee.

A VALUED WORD

▶ Look for the word "values" to pop up often in President Clinton's speeches. White House advisers think that he has a winning issue in attacking the GOP agenda as offensive to the all-American values of opportunity, family, and responsibility. Pollster Mark Penn and strategist Frank Greer are also urging Cabinet Secretaries to use the buzzword in their speeches.

FDA BE NIMBLE, FDA BE QUICK

▶ Congress is finally moving to reform the Food & Drug Administration—cautiously. Senator Nancy L. Kasse-baum (R-Kan.) is circulating a bill that would speed up FDA reviews of drugs and medical devices. One pro-posed change: allowing product ap-provals after one major clinical trial, instead of the current two. GOP hard-liners and some industry execs favor more radical deregulation. But com-panies are pleased that even modest FDA reform is under way at last.

ASIA

FREE-TRADE SHOWDOWN

How hard will the U.S. push in Osaka?

Small armies of Asian officials, often helped by researchers from Japan's enormous bureaucracy, have been shuttling about the region lately to talk about trade problems ranging from wildly different customs rules to incompatible telephone networks. The reason for the scurrying is the Nov. 19 summit in Osaka, where 16 Pacific Rim heads of state will discuss plans for achieving free trade in the world's most dynamic region by 2020. This ambitious goal was adopted by the Asia-Pacific Economic Cooperation (APEC) forum last year in Bogor, Indonesia. Now it's time to take the first steps to make it happen.

That's what makes it a defining moment for APEC and one that will affect Asia's economic vitality. The central question in Osaka will be whether to take the plunge with a deal to dismantle all Asian trade barriers across every industry by 2020. Or should Japan and other countries be allowed to exempt "sensitive sectors," such as agriculture?

American officials have prepared a tough line for President Clinton as he gears up for his Osaka trip. If Japan can exempt agriculture, argue U.S. free-traders, the bold blueprint from Bogor won't mean much. Instead, progress could bog down as special interests in each country pressure leaders to get their own industries exempted. "Australia will pull motor vehicles off the table, and we'll pull textiles," warns a senior Clinton Administration official. "The only thing left to talk about will be widgets." Australia, Indonesia, Singapore, and Thailand support the no-exemptions stand.

If Washington rejects compromise, however, the risk is that the Osaka meeting will be portrayed as a failure. That could be short-sighted because it would overshadow some very real progress that is occurring (table). A breakdown blamed even in part on Washington's heavy-handedness also could hurt the U.S. both diplomatically and economically.

Washington needs to understand, some Asians argue, that the real force behind trade liberalization is self-interest. Most Asian nations realize that to keep growth rolling th need to make progre opening markets in their r gions. Governments al recognize that long-coddl local industries must so be able to meet the inter tional competition. So lea ers from Indonesia, Th land, and even the Philippines have jumped on the free-trade bandwagon.

JAPAN SPEAKS

"We simply can't make a commitment" on cutting rice tariffs, says one official

SWIFT PROGRESS. Even without form APEC agreements, Asian countries a slashing tariffs, deregulating their fina cial sectors, and opening telecom a power monopolies to local and forei investors. Progress has been swifte among the seven-country Association South East Asian Nations (ASEA which includes Indonesia, Singapo Thailand, the Philippines, Malaysia, Vie nam, and Brunei. In its bid to form common market of 420 million, ASE last year agreed to push up its deadli by five years, to 2003, for slashing m tariffs on manufactured goods to higher than 5%.

Acting individually, Indonesia in M announced a plan to slash tariffs 6,000 items, by as much as 35%. It al sharply reduced import barriers in str tegic sectors such as petrochemical wood products, and cars. Thailand h announced a five-year plan for sweepi financial deregulation. Even countri with economies as primitive as Vie nam's are starting to make moves

ASIA'S TRADE PROGRESS

Even if Asian leaders don't agree on completely open markets at their Nov. 19 summit meeting in Osaka, the region is already showing signs of progress:

- Many countries are liberalizing their financial sectors and opening telecommunications and power monopolies to local and foreign investors
- Particularly within Southeast Asia, countries are lowering their tariff barriers to both manufactured and agricultural goods
- The Asians are making strides in standardizing customs regulations as well as quality and safety product codes
- Foreign investment rules are becoming clearer

DATA: BUSINESS WEEK

For its part, APEC is starting to show progress in a number of unsung but important fronts. For example, 10 working groups are preparing action plans to harmonize areas such as customs, product quality and safety standards, telecommunications systems, and investment rules, which vary widely across Asia and North America. Simply collecting data, let alone suggesting policies, has been a formidable task. Tokyo has offered a grant of nearly $100 million to dramatically boost the budget of APEC's Singapore-based secretariat office, which now has just $2 million and 32 full-time staff.

NOT SEXY. This work will benefit companies in the region. One initiative: to get APEC to agree on health, safety, and quality standards that make exporting across the Pacific Rim less costly and time-consuming. APEC hopes to achieve common standards within three years for electrical appliances, plastic toys, and labeling on packaged foods. "These areas aren't sexy or grand," says David Parsons, Singapore-based director-general of the Pacific Economic Cooperation Council, which represents private-sector, government, and academic groups. "But this is where APEC can really smooth the path for the average company and cut the cost of doing business."

OPEN ARMS

Financial institutions from the U.S. and Japan are setting up shop in Ho Chi Minh City

pen up to foreign financial institutions. The reforms are paying off. Trade ithin Southeast Asia surged 41% last ear, to $118 billion. And when ASEAN eads of state meet again in Bangkok n Dec. 14, they will consider a proposal push the deadline up again to 2000.

To bolster the trade reformers, the challenge at Osaka will be to create an artful compromise. For now, Japan is showing little sign of budging on agriculture. With his ruling coalition on the brink of collapse, Prime Minister Tomiichi Murayama is too weak to give much ground on the emotional issue of rice imports. "We think that in the process of liberalization, we have to be practical," says Katsuhisa Uchida, a key Foreign Affairs Ministry official. "We simply can't make a commitment" on cutting rice tariffs. South Korea and China also say they won't budge on agriculture.

The goal will be to finesse the wording of the Osaka declaration so that Asian politicians have the flexibility to wait until the timing is right to open sensitive sectors—without letting them off the hook entirely. "Everyone recognizes that all of us have different problems at different times in different sectors for different reasons," says Tony Miller, Hong Kong's chief trade negotiator. "But that doesn't mean excluding an industry forever and ever."

Therein lies some room for maneuver. For Japan, which now regards Asia as its main engine of growth, being blamed for a disappointing summit could deal a serious blow. Even Beijing, the least enthusiastic backer of APEC's free-trade goals, has come to realize it must be involved if it wants to be perceived as a responsible superpower.

Any compromise that emerges, however, is likely to fall short of the ambitious pace and concrete guarantees Washington has been insisting on. That shouldn't be considered a disaster, and U.S. negotiators are quietly beginning to signal they understand that. In Asia, where personal trust is key, it will be difficult for leaders to go back on the promises they made last year in Bogor. "In Asia," says APEC Executive Director Shojiro Imanishi, "shame is more effective than legal processes." That's why it's time for the Americans to play the game by Asian rules.

By Pete Engardio in Singapore, with Brian Bremner in Tokyo and Susan B. Garland in Washington

ISRAEL

IN THE MIDDLE EAST, 'PEACE IS NOW IRREVERSIBLE'

Despite Rabin's shooting, Arab and Israeli business leaders remain optimistic

Benny Gaon, CEO of Koor Industries Ltd., Israel's largest conglomerate, was pitching a $150 million stock offering to a group of investors in upstate New York on Nov. 4 when the news broke that Israeli Prime Minister Yitzhak Rabin had been felled by a right-wing assassin. Gaon stopped everything and flew back to Israel for his old friend's funeral. But hours later, the saddened Gaon was returning to the U. S. to continue his road show. "Despite the tragedy, we must move ahead," says Gaon.

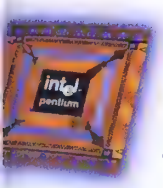
The shock of Rabin's assassination demonstrates once again how volatile Middle East politics can be. But, as Gaon's determination to get back to business shows, the powerful political and economic forces driving the peace process are unlikely to ease up. The presence of such leaders as President Clinton, Egypt's Hosni Mubarak, and Jordan's King Hussein underscored the point. And business leaders are getting the message. "Peace is now irreversible," says Zeyad O. Salah, a Jordanian industrialist who runs one of his country's largest construction companies. Salah—an ethnic Palestinian, like most of Jordan's 4 million people—has been busy cultivating his Israeli business contacts in recent months. "We have to ensure that the process will be even stronger than before."

NO OPTION. Investors reckon governments in the region don't have any real alternative to peace. That's one reason Jordan's stock exchange dipped less than 1% in the three days after the shooting. The Tel Aviv exchange went down 3% the day after the murder, but bounced back.

Arab governments, especially, are hoping for a peace dividend. As Israel has boomed in recent years, war-weary states such as Jordan and Egypt realized that they

CLOSER TIES: *The record turnout for an Israeli state funeral included Carter, Peres, and Jordan's Queen Noor and King Hussein*

THIS IS BIG.



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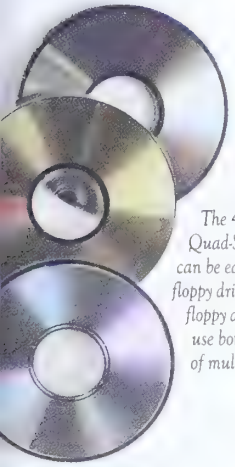

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could no longer afford ruinous levels of defense spending and that they would fall hopelessly behind if they didn't attract foreign investment.

Still, the loss of Rabin, a tough-talking ex-general, will be hard to overcome—because Israelis trusted him not to give too much away to the Arabs. Acting Prime Minister Shimon Peres, considered too dovish by many Israelis, faces a formidable challenge in pursuing negotiations with the Palestinians and trying to cut a deal with Syria's President Hafiz Al-Assad. To bolster his credibility, Peres is likely to install Ehud Barak, a former Israeli army chief of staff and current Interior Minister, as Defense Minister. He is also likely to bring back to the Cabinet Haim Ramon, the popular Histadrut chief who walked out of the government two years ago.

FULL-PAGE ADS. One group Peres can count on for support is Israel's increasingly influential and powerful business community. In the days leading up to the peace rally in Tel Aviv where Rabin was shot, for example, top business leaders such as Gaon, Africa-Israel Investment chief Shlomo Grofman, and Bank Hapoalim CEO Amiram Sivan placed big newspaper ads in support of the peace process. Many more turned up at the rally itself.

Business support for an entente with the Arab world is not surprising. Opportunities arising from the process helped produce white-hot economic growth, which this year will hit 7% in Israel. "In the long term, everything depends on continuation of the peace process," says Galia Maor, the recently appointed head of Tel Aviv's Bank Leumi.

No one has pulled back from a business project in Israel as a result of Rabin's murder. Intel Corp., for example, is pressing on with plans to build a $1.6 billion flash-memory-chip plant in Israel, one of the company's largest investments outside the U. S. "Ironically, the assassination will lead to further economic breakthroughs to move the peace process along," says Dov Frohman, general manager of Intel Israel Ltd., which already has two other operations in the country.

Within hours of Rabin's killing, Inventech Industrial Ventures, a Tel Aviv high-tech group, received faxes from partners at Japanese consumer-electronics giant Kenwood Corp. expressing condolences and confirming that they wanted to go ahead with a $20 million Israeli venture-capital fund. "They wanted to reassure us that they were still committed," says Amiram Shore, an Inventech partner.

The powerful trade relationships that Rabin and Peres helped forge with countries such as China, India, Japan, and South Korea—all of which once scorned the Jewish state as a pariah—will probably get stronger. A Rabin-led delegation of Israeli politicians and business leaders to Seoul late last year, for example, induced Korean *chaebol* Samsung Group and Hyundai Corp. to set up shop in Israel. This year, Israeli exports to Korea will probably top $250 million, up from almost nothing just three years ago.

Despite these encouraging developments, one nagging problem has been that only Israel has reaped any economic benefits so far from the peace process. But that's starting to change. Nasser I. Abdelhadi, a young West Bank Palestinian businessman who has been bitterly opposed to Israeli occupation, is starting to see a payoff at Arab Hotels Co., which he founded early this year. At the company's Al-Qasr Hotel in the West Bank town of Nablus, once a hotbed of the *intifada*, rooms are overbooked by 70%, as businesspeople come pouring in. With $300 million in aid starting to flow through the regions controlled by Ya[illegible] Arafat's Palestinian National Auth[illegible] this feverish activity is bound t[illegible] crease. Abdelhadi is currently c[illegible] seeing $60 million in hotel investm[illegible] in the West Bank and Gaza Strip.

EUROPEAN HELP. Washington is [illegible] backing the establishment of a M[illegible] East Development Bank, which sh[illegible] support Palestinian business initia[illegible] with loans in the coming years. Inte[illegible] tional donors have pledged more tha[illegible] billion in assistance to the Palestin[illegible]

CONCRETE STEPS: *Only peace can bring prosperity to Palestinians in Gaza*

A further upbeat sign is the E[illegible] pean Union's four-year, $12 billio[illegible] nancial-aid program for North Af[illegible] and the Middle East: Approval is [illegible] pected this month. The aid will [illegible] Europe's southern flank a shot of [illegible] same economic help that Eastern [illegible] rope has enjoyed from Brussels s[illegible] the collapse of communism in 1[illegible] Free-trade agreements between [illegible] rope and key Middle Eastern st[illegible] are likely to be signed over the [illegible] few years, leading to a surge in [illegible] ports from the region.

So, while Rabin's death was a [illegible] cious blow to the peace process, a [illegible] range of governments and busine[illegible] now has a big stake in moving ah[illegible] That is why Rabin's assassination w[illegible] succeed in its aim of stopping the c[illegible]

By John Rossant and Neal San[illegible] in Jerusalem, and Kirk Albrech[illegible] Amman

Rabin's death will be hard to overcome: Most Israelis trusted him not to give away too much to the Arabs

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INDONESIA

GOLD RUSH IN NEW GUINEA

But a Stone Age tribe and environmental concerns threaten Freeport-McMoRan's mining of a fabulous treasure

Captain Kaletus Janempa, a 42-year-old guerrilla of the Free Papua Movement, looks out from a thatched hut over a well-guarded mountainside in Irian Jaya, Indonesia. He and fellow guerrillas want to drive out New Orleans-based Freeport-McMoRan Copper & Gold Inc., which has invested $2.8 billion there to mine the world's largest gold deposit. "We're using spears, bows, arrows, and knives," says the bearded Amungme tribesman, wearing an olive-drab cap and wielding his palm-wood bow and bird-hunting arrows. "When the military is asleep, we'll take their guns."

Conflict with the Amungme, who are just emerging from the Stone Age, could spell big trouble for Freeport. Since the murder of a Freeport employee by guerrillas a year ago, the company has said the concession area is under control. "We have an excellent relationship with the chiefs of the tribes," says Senior Vice-President Thomas J. Egan, who is based in New Orleans. Any reports of civil unrest are "certainly not the case," he says.

CHUMP CHANGE. But in the eyes of the Amungme, Freeport and the Indonesian government, which owns a share in Freeport's local subsidiary, are getting rich off their ancestral land in exchange for mere consolation prizes such as jobs and free medical care. As they become more worldly, many Amungme are increasingly resentful. Environmental problems also are looming larger. One of the company's political-risk insurance po cies has just been canceled by the Overseas Private Investment Corp cause Freeport's operations are ca environmental damage, OPIC says.

For the Indonesian government, dling the tense situation surroundi largest single foreign investor will crucial test of its drive to attract ne vestment. For Freeport-McMoRan per & Gold, which was spun off last from parent Freeport-McMoRan Inc stakes are enormous. All of its egg in this Indonesian basket, accordi San Francisco-based investment Robertson Stephens & Co. The 13 foot-high Grasberg gold and copper and supporting infrastructure are company's only big assets.

The prize, if Freeport can over these problems, is a fabulous tre of mineral resources in Irian Jaya western half of the island of New Gu This year alone, Grasberg will yiel million ounces of gold and 975 m pounds of copper with a total ma value of $1.76 billion, according Freeport officials.

Freeport has been in Indonesia the 1960s, when President Suh signed the country's first foreign venture with a predecessor compan the 1980s, Freeport found Grasberg, enough proven reserves to last until at current levels of production.

To tap this bounty, Freeport is panding furiously. It boosted outpu

TROUBLE IN EL DORADO

1962 Indonesia annexes former Dutch-held western New Guinea with its big Ertzberg gold-copper deposit. Renames territory Irian Jaya.

1967 President Suharto signs his government's first foreign joint venture with Freeport to develop Ertzberg.

1974 Pact with Amungme tribe lets Freeport mine on its lands in return for community-development program.

1988 Freeport discovers Grasberg, world's biggest gold deposit. Subsidiary Freeport-McMoRan Copper & Gold goes public.

1994 Free Papua Movement rebels gun down Freeport employee. Freeport calls in Indonesian army. Troops kill at least 16 tribespeople.

1995-JULY Freeport brings in British mining giant RTZ as a strategic partner.

1995-OCT. U.S. Overseas Private Investment Corp. cancels Freeport's $100 million political insurance because of environmental problems at Grasberg.

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nearly 90% last April, raising the projected 1995 income of Freeport-McMoRan Copper & Gold to $332 million from $130 million in 1994, according to Smith Barney Inc. The company is traded on the New York Stock Exchange.

Hoping to head off further unrest, Freeport is spending $14 million a year on community development for the Amungme, from housing to schools and clinics. But the Amungme, who number just 8,000, are waking up to the riches around them. They are starting to ask why Freeport has built clapboard shacks for them but luxury apartments and a U.S.-style shopping mall for its staff in the town of Tembagapura at the other end of Waa Valley. "Freeport promised me a good house. This is not a good house," says Tuarek Natkime, chief of Waa Valley, gesturing at the grimy walls of his living room.

UNEVEN EXCHANGE? *Freeport provides clapboard housing, schools, and clinics*

Sympathy for the guerrillas is pervasive. Out of earshot of Freeport employees, young Amungme men wearing feathers and penis guards made of orange gourd shells proudly announce: "I am OPM"—the Indonesian initials for the Free Papua Movement, a scattered band of secessionist guerrillas that has been blamed for last November's attack.

After the attack, Freeport asked for the army, and 30 troops were sent in. The crackdown left at least 16 tribesmen dead and 4 missing. Indonesia's government-appointed National Commission on Human Rights concluded after an investigation that Freeport was not responsible for abuses committed by the army.

But the bloodshed has helped spur fresh criticism from environmentalists and aid agencies. Freeport's ore mills dump more than 100,000 tons of gray, dusty tailings into local rivers every day. The Indonesian Forum for Environment, a nongovernment agency partly funded by the U.S. Agency for International Development, says the tailings are toxic and are killing fish and razing vast tracts of rain forest.

The company has repeatedly denied such charges. "There is no toxicity," says Egan. The mine tailings, he insists, are "inert sand, the same material that washes down a mountain without a mine." But OPIC says Freeport breached its $100 million contract for political-risk insurance by sharply increasing the amount of ore processed. The massive tailings discharges harm the Ajkwa River and lowland rain forests, the agency says, causing an "environmental, health, or safety hazard in Irian Jaya."

Egan says the OPIC insurance is "not financially significant" to the company. Freeport also has a $50 million political-risk policy with a World Bank affiliate and policies with private insurers for undisclosed amounts.

To help control the flow of tailings, Freeport built levies earlier this year to contain the discharges in a narrow channel to the sea instead of allowing them to spread through lowland forests. And it started replanting exotic tropical e and grass on mounds of dry tailing

> Freeport admits land boundaries were never set, and the Amungme want to renegotiate

However, many contentious is such as land rights, remain. Amungme have no concept of land ership that can be translated into pensated exchange under Indonesian So in the early 1970s, Freeport go lage chiefs to let the company oc their ancestral land in return for munity development.

Now, without knowing where to s tribal leaders say they want to rene ate. Stan Batey, a Freeport commu development supervisor, admits the pany made a grave mistake by clearly marking land boundaries in early 1970s. Freeport officials say are considering making amends by ting up a trust fund in the name Amungme council of elders that w hold shares of P.T. Freeport Indo and thus give the community more

VOLATILE CALM. Considering the po of the situation, Suharto is keepi low profile in the debate over this national asset. The Indonesian go ment sees Irian Jaya as a benchma its ability to keep the lid on racial, gious, and political tension in a n of some 300 diverse ethnic group also wants to keep economic dev ment on course. Freeport employs 1- Indonesians, predominantly from main island of Java. And indire Freeport creates 40,000 more through domestic procurement. With April's production increase, the go ment can expect to earn $250 milli year in royalties, corporate taxes, dividends from Freeport.

If stability can be maintained, the pany will get a crack at developin entire province on behalf of the Ind sian government. But young, artic Amungme say they want Freeport the Indonesian government to get of Irian Jaya. Many are Freeport ployees, such as Silas Natkime, the year-old son of the Waa Valley chief, earns $380 a month as a Freeport we "I don't need money," says Natkime, gives his paycheck to friends and fa "I want the river's color back."

As long as the Amungme remain war footing, Freeport will have t more to come to terms with them. how much of its wealth can the com share with locals without causing more of a social upheaval? "The j still out," says community devel Batey. Others would say it's waiti the mountainside.

By Michael Shari in Irian Jaya, Gary McWilliams in Houston and Crock in Washington

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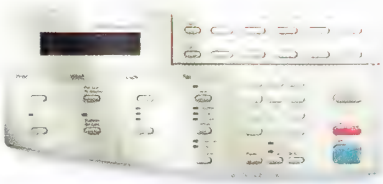

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JAPAN

AFTER THE COVERUP, THE MOP-UP

Daiwa may be sold–and other Japanese banks may follow

Daiwa Bank Ltd. is in play—Japanese-style. In a market where the Ministry of Finance pulls the strings, the scandal-plagued bank may soon be gobbled up by Osaka-based Sumitomo Bank Ltd., Daiwa's prestigious hometown competitor. Not that Daiwa has much choice in the wake of its coverup of $1.1 billion in bond-trading losses on Wall Street. U.S. and Japanese regulators have hit the bank with sanctions so tough—including expulsion from America and the shutdown of much of its international operation—that Daiwa probably couldn't survive on its own.

BARGAIN? *Daiwa could sell for $8.2 billion*

With combined assets of $706 billion, a Sumitomo-Daiwa tie-up would produce a megabank rivaling last spring's $712 billion marriage of Bank of Tokyo Ltd. to Mitsubishi Bank Ltd. A Sumitomo-Daiwa merger could also clear the way for MOF to put other big lenders in play as it tries to refashion Japan's glutted banking business into a handful of full-service monoliths. Indeed, with 21 major and 129 regional lenders chasing the same corporate customers even as they struggle under the burden of an estimated $800 billion in problem loans, it's easy to understand why the MOF might want to shrink banking's ranks.

But the MOF needs to hustle. Daiwa's comedown has put the Japanese banking system under the sharpest global scrutiny since the country's bubble economy burst six years ago. Risk-averse investors are now forcing Japanese banks to pay 0.6 percentage points more than other banks when raising cash overseas. The penalty could grow if the MOF can't get a financial overhaul in gear.

Turning the MOF's dream of a shakeup into reality will be another matter. The Ministry may be reluctant to sanction a huge consolidation wave right away if it means saddling profitable banks with the losses of the industry's basket cases. "I don't believe bigger is really better," warns Makoto Utsumi, a former MOF tax and international finance chief and now a Keio University business professor. The only other option the MOF has is to issue bonds to bail out the insolvent housing loan industry, which owes commercial banks billions, as wel tap more public funds to refin Japan's depleted deposit insurance

But even without public cash, mergers will occur. Indeed, pric many banks' stocks have jumped on takeover rumors (table). But if tomo snares Daiwa—one of the gainers this fall—it will probably a bargain price. Deutsche Morgan fell banking analyst Heaton estimates that en the bank's $3.8 billi problem loans and the billion fine it faces in U.S. if convicted on charges stemming from coverup, Sumitomo may Daiwa for $8.2 billion. would be 25% below its rent market value. Daiw clines to comment.

Also complicating ma are objections from No Securities Co., which 3.7% of Daiwa and is e the bank's lucrative business. On top of comes a power stru within the MOF, whic ready has been de humbled by its slow closure of Daiwa's scandal to U.S. re tors. The Ministry's Banking Bu took six weeks to disclose the D mess. That prompted rival officia the MOF's International Finance Bu to push through sanctions to fen U.S. criticism that the Ministry dragging its feet.

BAD DEBTS. None of these hurdl likely to block a Sumitomo-Daiwa however. And a bunch of other pos takeovers are waiting in the wings. wa Bank, Fuji Bank, Sakura Ban Dai-ichi Kangyo Bank might like to a weakened trust bank to get int securities business. And three le that the MOF would love to marry Nippon Credit Bank, Chuo Trust, Hokkaido Takushoku Bank—are dened by bad debts and are in ne serious restructuring.

How rapidly the MOF launch workout of the industry's bad debts stage-manages the marriages of to ing rivals will determine whe Japan's banking system can remain bally competitive. With the $800 bi in bad loans, one of its biggest meme humbled by a billion-dollar scandal, funding sources beginning to dry overseas, time is running out to st fix-up campaign that's long overdu

By Brian Bremner in To

Banks That Might Be in a Marrying Mood

BANKS	DESCRIPTION	TOTAL ASSETS BILLION
SAKURA-INDUSTRIAL BANK OF JAPAN	Sakura's domestic branch network would augment IBJ's corporate bond franchise	$909
FUJI-YASUDA TRUST	Both are big asset managers	727
SANWA-TOYO TRUST	Sanwa is strong overseas, Toyo at home	714
DAIWA-SUMITOMO	Sumitomo could get Daiwa for a song	706
TOKAI-CHUO TRUST	Tokai likes the middle market, Chuo securities	320

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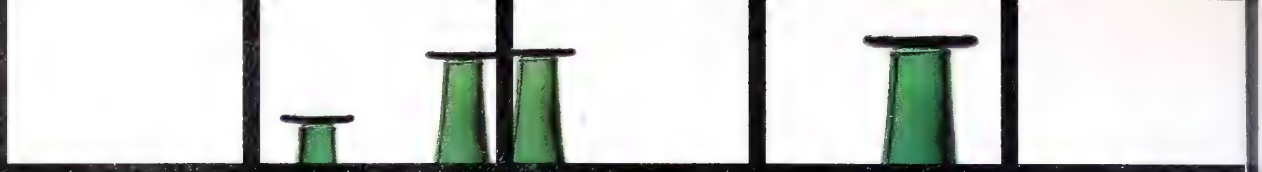

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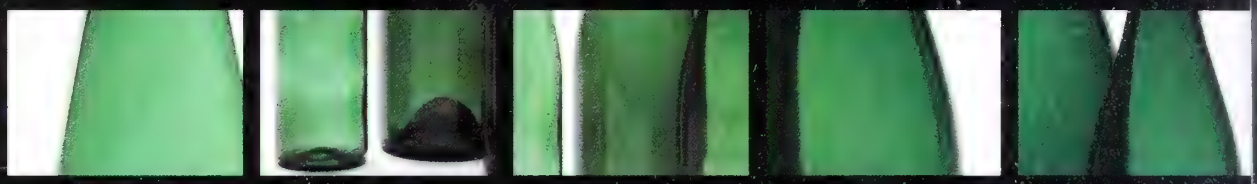

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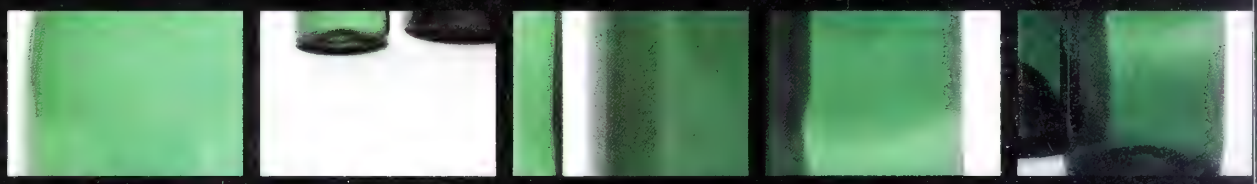
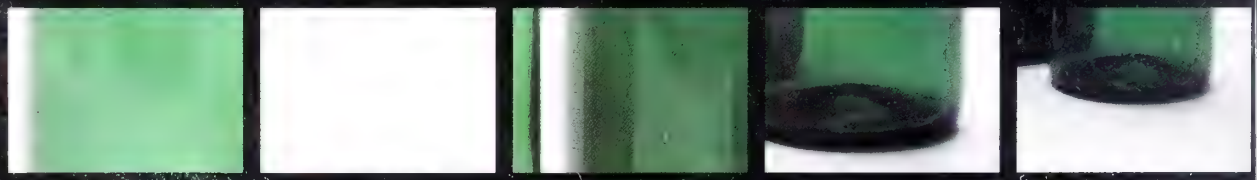


And all you know is the shape.



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GUANGZHOU TOLL ROAD: *Mainlan contractors undertake the actual*

STRATEGIES

NEW WORLD'S ROAD TO CHINA

The Hong Kong group is building the nation's pet projects

Cheng Yu-tung plays by a different set of rules in China. The Hong Kong property magnate didn't bother to wait for approval from Beijing, for example, before starting construction on a $420 million addition to a power plant in Guangdong province two years ago. Since an offshoot of the provincial government was a partner in the deal, Cheng was confident Beijing would come around sooner or later. Sure enough, in September, he finally got the official O.K.

Now, with the Zhujiang plant nearly ready to begin operating, the chairman of New World Development Co. still doesn't have an agreement on pricing—or any assurance anyone will buy his electricity. No matter. Last month, Cheng bundled the power plant together with a clutch of roads and bridges in China and Hong Kong, and he sold a minority stake to the public, raising $300 million.

This gutsy approach has made New World the developer to watch in China. No one can match Cheng Yu-tung, not even better-known developer Gordon Wu. Most Hong Kong tycoons won't invest more than 10% of their equity in the mainland, but New World is willing to risk a full 25%. And while rivals stick to property development, an isolated toll road, or a power plant, New World is taking on a range of projects (table, page 77). "Other companies are mostly in the real estate business," says Cheng, one of the richest and best-connected Chinese tycoons in Asia, in a rare i view. "We have toll roads, power pl housing schemes—and we're even ing at airports."

New World also has an advan over big Western operators such as GE Capital, and Morgan Stanley. T because Cheng, 69, cares more a getting the deal done than about sat ing nervous lawyers. By forming p nerships with local officials, for exa Cheng gives them a vested intere the success of his projects. That helped him win generous returns as as guarantees to repatriate profits get loans and investment paid ba hard currency—two chronic stic points for foreign investors in C "The government has guaranteed New World will make money," Cheng.

BOLD STANCE. Cheng's aggressive proach has also given New World c dence to step in where others fea tread. When authorities in the ce city of Wuhan ran short of funds f new bridge across the Yangtze R New World came to the rescue. In shortly after the Tiananmen massac cash-strapped Wu, chief of Hope Holdings Ltd., backed out of a toll

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OVER THE YANGTZE: *The group has a stake in four Wuhan bridges*

ound Guangzhou. New World ked up the project. Unlike pewell, whose construction osidiary takes on the risk of ilding projects, New World al- ys mainland contractors to do e actual work. That means that e company is protected from posure to China's endemic cost erruns.

Altogether, New World has nked down investments of $1.2 lion on more than 60 projects. hat makes New World an at- ctive vehicle for international estors is that the Chengs are tually executing their China jects rather than just talking out them. "They've shown they n succeed," says a Hong Kong fund nager.

In addition, the group will put in a ther $1 billion of its own money dur- g the next four years, making New orld one of the largest—and most ag- essive—investors in China. "We're al- ys looking for more investments," ys Managing Director Henry K. S. eng, 49, Cheng Yu-tung's eldest son d heir apparent.

ITTERING JEWELS. To bankroll its ategy, New World is looking to inter- tional investors. It is in the midst of a rry of debt and equity deals that are pected to raise more than $1 billion early 1996. It has just spun off a e-third interest in its New World In- structure, raising $300 million on the ong Kong exchange. By November, e stock price had risen 5%. The unit ans to raise an additional $300 mil- n worth of debt. In September, the engs listed their Renaissance Hotel roup on the New York Stock Ex- ange, raising $163 million—mainly in der to fund increased investment in China. Over the next few months, they plan to pull in an additional $500 million through private placements.

How New World Does It

SAMPLING OF PROJECTS	$ AMOUNT MILLIONS	STAKE
GUANGZHOU RING ROAD	180	40%
GUANGZHOU-ZHUHAI EXPRESSWAY	525	20
WUHAN TOLL BRIDGES	215	48.9
WUHAN AIRPORT EXPRESSWAY (WUHAN)	69	40
ZHUJIANG POWER STATION, PHASE I (GUANGDONG)	325	50
ZHUJIANG POWER STATION, PHASE II (GUANGDONG)	420	25

DATA: NEW WORLD INFRASTRUCTURE

The China business is one part of a sprawling empire—with $7 billion in assets that include a budding Hong Kong telephone company, the territory's largest chain of jewelry shops, and one of the world's largest hotel chains. The Cheng family easily makes it into the ranks of the super-rich: Through their privately held jewelry company, the Chengs own stock in the New World group worth $2.4 billion.

The kudos that New World wins for its success in China are all the more striking because of the troubles that have afflicted Wu—a former darling of investors who were looking for a China infrastructure play. Hopewell has been dogged by cost overruns, poor disclosure to investors, and a growing belief that the company is too thinly managed. Analysts say New World has both management depth and an ability to limit risk—something that has eluded its competitors.

Whereas Wu is known for table-thumping, the elder Cheng has quietly cultivated intimate ties with officials who can smooth the way. He grew up with the mayor of Guangzhou, Li Ziliu, a connection that can't hurt New World's business in the city. Guangdong Electric Power Development Co. is one of the owners of its new Zhujiang generating plant, which should make it easier to get a satisfactory pricing deal. Cheng also has direct access to Chinese President Jiang Zemin.

But relationships can cut many ways in China. A ripple of unease ran through New World earlier this year, after Beijing Vice-Mayor Wang Baosen committed suicide in the midst of an anticorruption drive. Wang, whose lavish way of life prompted the Communist authorities to make him a posthumous example of the evils of corruption, was a government-appointed director of New World China Investment Ltd., the predecessor to New World Infrastructure. New World's business doesn't seem to have suffered, and there was no indication that New World engaged in any illicit deals. Cheng Yu-tung subsequently had a high-profile meeting with President Jiang, demonstrating that the group remains in good standing.

DELICATE MOMENTS. New World wins high marks for steps it has taken in recent years to bring in more professional managers and make the company more transparent to investors by spinning off the infrastructure and hotel subsidiaries. That has given investors confidence it can continue the success it has had so

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far in China. "It's probably one of the best exposures [to China] available," according to Simon Male, a fund manager at G.T. Management (Asia) Ltd. who holds stock in both New World Development and New World Infrastructure.

The strategy is not without risks. China still lacks a well-developed legal and regulatory structure, and there are delicate moments looming—such as the transition to a post-Deng leadership and the takeover of Hong Kong by China. The Chengs believe that fears have been overblown. After China gains sovereignty over Hong Kong in 1997, says the elder Cheng, "there won't be much difference between China and Hong Kong." New World also insists that it isn't placing too much emphasis on ties with individual leaders. "We build relationships with the entire government," says one New World Infrastructure executive.

New World's confidence in China's stability was clear after the Tiananmen Square massacre. While other investors stayed away, the Chengs were making two of their biggest deals—the Guangzhou ring road and the first phase of the Zhujiang power plant. The result was high returns—about 25% annual return on equity for the toll road and an 18% guarantee for the power project. "They structured their deals quite well because they were going in when no one else was," says an analyst in Hong Kong who follows New World closely. "Going forward, it's not quite clear if they can do as well."

LOCAL APPLAUSE. To win over more Chinese officials, New World is investing where the state needs help: power plants, bridges, and roads. These provide steady, secure returns for New World—and receive applause from local authorities. Another political winner: New World is pioneering a government-subsidized plan that will provide hundreds of thousands of apartments at modest prices.

ROOM AT THE TOP

Chairman Cheng counts on lofty profits from housing—including a tony Guangzhou enclave where Manhattan-like prices prevail

To understand how New World blankets a region, look at Wuhan, where key roads and the country's main north-south rail line cross the Yangtze River. New World has a stake in three bridges and may take one in a fourth. It also has a stake in the city's new airport and the toll road connecting it to the city. Nearby, it plans to build an industrial park. A recently completed retail-and-office tower houses Wuhan's top department store and a roster of tenants such as AT&T, Hongkong & Shanghai Banking, and McDonald's. Next on the drawing board: tens of thousands of midpriced apartments.

New World is trying to make sure it isn't seen as the ugly foreigner in China. Most of its infrastructure investments are minority stakes. The company comes up with cash and project know-how, then sits back and waits for the returns to roll in. With projects such as toll roads, says Henry Cheng, "you just send people there, and they sit in a toll booth and collect money."

More spectacular profits may come from the tiny upper end of China's housing market. New World has already built one of China's toniest projects, a cluster of detached houses on an island in Guangzhou. The airy, wood-paneled dwellings feature cathedral ceilings, imported marble, and gold-plated bathroom fixtures. Selling price $350 a square foot, similar to rates in Manhattan. Of the units put up for sale last March, 80% have been sold. Similar high-end projects are under way in Shanghai and Beijing. In all, New World has four dozen commercial and residential projects planned or in the works.

Cheng's bets in China are in character for a man known for putting many of his investments in the same basket. After growing up in a village on the Pearl River Delta, Cheng dropped out of primary school and made his way to Macau and then Hong Kong. He worked as an apprentice goldsmith in a friend's jewelry shop before marrying into a family that ran a jewelry business. In 1967, a year after China's Cultural Revolution spilled into the streets of Hong Kong, he bought from a British officer the house he still lives in—for $130,000. Today, the mansion, on the south side of Hong Kong island, would fetch at least $13 million.

FAMILY SPRAWL. In the following two decades, New World went on to develop some of Hong Kong's most prestigious properties, including the Regent Hotel and the Hong Kong Convention & Exhibition Center. But in the late 1980s New World lost focus. Unlike its rivals, it missed the chance to acquire large amounts of land in Hong Kong during periodic downturns in the property market. Worse, it started to diversify with a series of ill-considered acquisitions. These were particularly damaging: the 1989 purchase of the Ramada hotel chain and the acquisition of nearly half the shares in a money-losing television channel in Hong Kong.

With family members scattered throughout New World and Cheng's privately held jewelry company, New World seemed considerably like the classic Chinese family business: stiff, hierarchical, unwilling to give true power to professional managers yet unable to manage increasingly far-flung acquisitions. Analysts blamed Henry Cheng

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for the troubled acquisitions, although some company insiders insist that the rap is unfair. Fair or not, Henry is only recently starting to live down the notion that he lacks his father's golden touch.

The plunge into China is what helped turn the group around. At first, that too looked like an ill-conceived move. The projects on the mainland were consuming cash—with no sign of producing profits. And China's attempt to cool its economy, started in 1993, has managed to put many real estate development projects on hold.

UNFAIR RAP?

At 49 years old, son Henry Cheng is only recently starting to live down the notion that he lacks his father's golden touch

"HIDDEN ASSET." But now, with many of its China projects completed, the money is starting to pour in, and New World seems to have won over many of the skeptics. Unlike certain other companies that were promoted during China's 1992-93 boom, 12 of New World Infrastructure's 15 China ventures are already generating cash. New World's China business "is changing from a high-risk gamble to its greatest hidden asset," argues Charles Cheung, an analyst at Jardine Fleming Securities Ltd. in Hong Kong.

Uncertainty over projects such as the Zhujiang power plant, where construction was nearly complete before the company won government approval, is still troubling to some of the group's critics. New World Infrastructure's rates of return "aren't that great," says William Kaye, managing partner of the Asian Hedge Fund. Although Kaye's firm has a number of direct investments in China, he thinks New World's China infrastructure projects stack up badly beside similar offerings ir ing out of Australia wi he notes, the returns similar and the politica gal, and currency uncer ties are lower. "We nee get compensated" for higher risks in China says.

But Kaye's is a rare of dissent. Investors are ing around China—des earnings disappointments number of companies—i New World Infrastruc looks like one of the b plays. The company's la offering has raised 50% more than company thought possible when shows began. Another sign of confi that the Chengs have started to the pieces of the corporate jigsaw pi together comes from the strong sho of their New World Development Its shares have more than doubled the beginning of the year. New W obviously must keep working on c ing a more focused, more transpa better-managed group. But it is cle building a road to China.

By Mark L. Clifford in Guang

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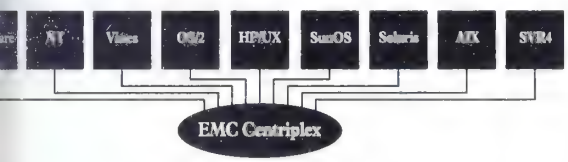

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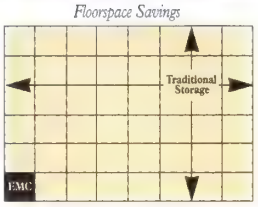

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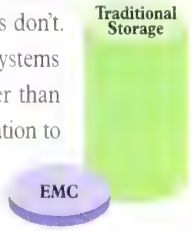

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A FULL PLATE FOR BUZZ McCORMICK

The ex-CEO returns to a flagging spice giant

When Charles P. "Buzz" McCormick Jr. gave up the chief executive officer's post at McCormick & Co. nearly three years ago, he figured he would be filling his days by hitting golf balls and counting dividends. His company was churning out sales and profit gains and seemed to have a lock on much of the world's flavorings market. Then, 15 months ago, McCormick's first successor, Bailey A. Thomas, died of a heart attack. And now his replacement, CEO H. Eugene Blattman, 59, is unexpectedly planning to step down, citing his own heart problems. At 67, McCormick is back in the top job.

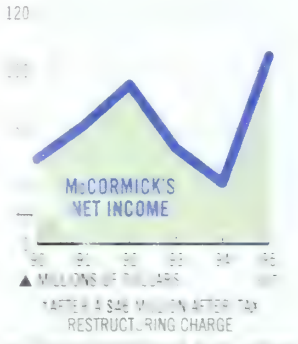
Buzz, the grand-nephew of Willoughby McCormick, who founded the company 106 years ago, is taking over at a time when the outfit needs some spicing up. Growth has slowed. Some planned foreign acquisitions have foundered, while others helped drive debt to an onerous level. Then there's the possibility of a takeover bid—even though Buzz McCormick, his family, and employees together are believed to own more than half of the company's voting stock. "We have always been an attractive takeover candidate," Buzz says. "I don't dismiss it out of hand."

OUTBID. During McCormick's first tenure, results were anything but plain vanilla. He took the CEO's post in 1987, after three decades in marketing and administration. He and Thomas, his second-in-command, shook up a sleepy company, repackaging the consumer spice line, selling off a real estate division, and streamlining domestic and foreign operations. From 1987 to 1992, the pair more than tripled annual net income, to $95.2 million, and expanded annual sales by more than one-third, to $1.5 billion. "What they did was nothing short of phenomenal," says analyst Kurt Funderburg of Ferris, Baker, Watts Inc., a Baltimore broker.

Since January, 1993, when McCormick retired, the Sparks (Md.) company hasn't done so well. A European expansion faltered when German regulators denied a bid by McCormick and CPC International Inc. to acquire Ostman, Germany's biggest spice company, and McCormick was outbid for a French spicemaker. Earnings were slipping when CEO Thomas, 63, died in July, 1994, and Chief Operating Officer Blattman was elevated to the top job. Restructuring charges of $46 million, after taxes, clobbered results that year (chart). This year, analysts figure a strong fourth quarter will give the company earnings of $105 million, on sales that will jump 10%, to $1.9 billion.

But McCormick faces some unappetizing prospects. Australia's Burns Philp & Co. has been offering deep discounts for more than two years to lure retailers into giving more shelf space to its Durkee French brand. And outside forces, such as the weak peso (McCormick is Mexico's biggest mayonnaise producer) and higher interest costs, are weighing heavily. The company has boosted its debt to $700 million, 52% of capital. That was partly for spending to match rivals' discounts, but also for some $82.5 million worth of acquisitions of offshore food and spice companies. Now, Standard & Poor's Corp. is considering a possible downgrade of its bonds.

SNAPPING BACK?



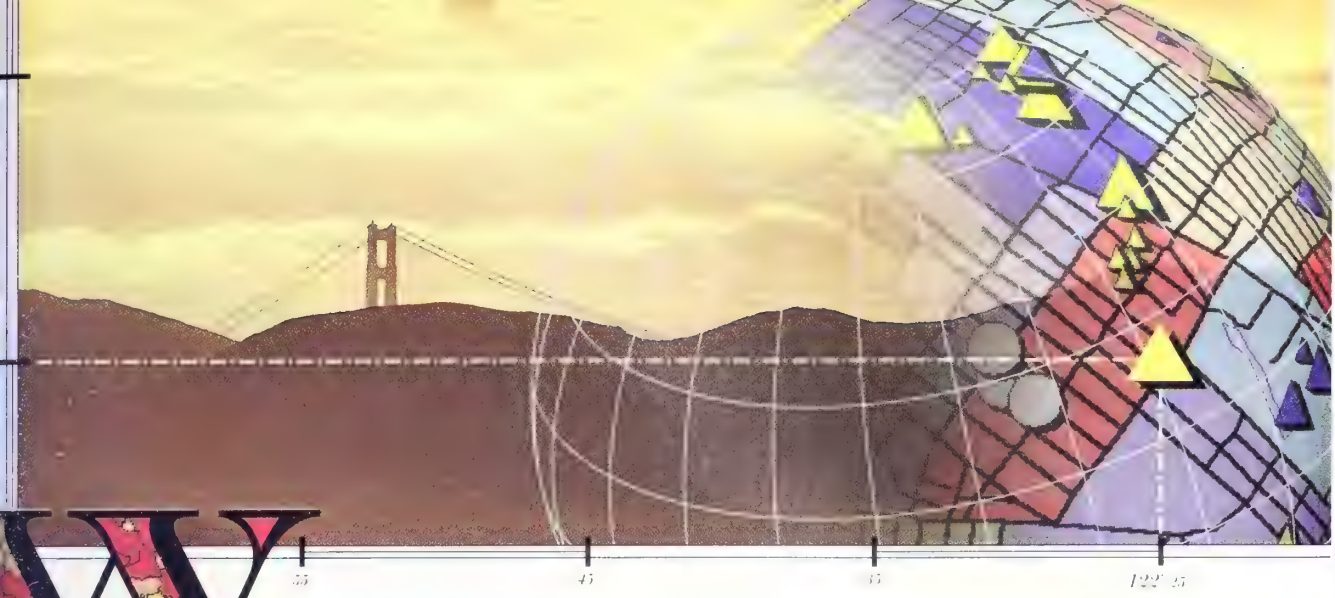
Buzz McCormick chalks up some setbacks to bad luck, and says brisk growth couldn't go on forever. Would he sell if such rumored acquirers as San CPC, Nestlé, or Unilever made an fer? "If they offered us 10 times w the price is today, we would hav take a look," he jokes. But anal think a hostile bid may be in the of Despite poor results, McCormick's s is up five points, to about 26, since i year, mainly on takeover talk.

Meanwhile, McCormick has plan get the spice company back in sh To build brand recognition, he'll sp some $24 million during the next th years on advertising, mostly on the dio, running ads year-round instea intermittently. Analysts also specu that he'll come out with a long-prom line of sauces. After perhaps a y Buzz McCormick says he'll give up CEO's post, making way for a youn executive. Analysts see Executive V President Robert J. Lawless, 48, becomes president on Jan. 1, as a li successor. Says McCormick: "We are ing through some competitive times, when I feel these guys are ready to the business I'll get out of here, the sooner the better." If potential quirers get hungry, though, McCorm may retire again—sooner than he'd

By Roy Furchgott in Baltim

SHORT-LIVED RETIREMENT

McCormick faces unappetizing challenges, such as slower growth, heavy debt, and the possibility of a takeover bid



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Pilots are threatening a slowdown during its busiest season

Federal Express Corp. Chairman Frederick W. Smith has tried to keep unions out of Federal Express ever since he founded the company in 1973. So employees are well-paid and even get to evaluate their bosses anonymously each year. What's more, FedEx' 17% annual growth record has provided rich career opportunities that make for a largely happy workforce.

But the pretty picture at FedEx is now marred. For 17 months, the company has been negotiating its first-ever union contract, with the Air Line Pilots Assn. (ALPA), which won the right to represent the company's 2,800 pilots only after its third try in 1993. On Nov. 25, the two sides will emerge from a federally mandated cooling-off period—possibly hotter than ever. The union, claiming that management has no intention of signing a union contract, is threatening a work slowdown smack in the middle of FedEx' busiest season.

DOUBLE JEOPARDY. So far, management isn't budging. Executives fear that doing so would encourage the United Auto Workers and Teamsters to renew organizing efforts among the company's 110,000 other employees. FedEx also may be banking on an employee group that's seeking to oust ALPA. The risk, however, is that FedEx could wind up angering employees and customers alike. "This is not about money," charges Joseph DePete, head of ALPA's FedEx unit. "It's about sending signals. They want to stop the unions."

The central issue is one of control. Like any union, ALPA wants its contract to cover as much ground as possible. Management wants the opposite. For instance, FedEx insists that pilots based overseas be excluded from the union pact. That's no big deal now, since the company employs only about 50 pilots overseas. But foreign operations account for 12% of FedEx' business and are growing by 25% a year. Management also wants the right to hire nonunion pilots to fly leased planes in peak season. "If we give in to [ALPA's] extravagant demands, we'd have major problems," says Charles W. Thomson, FedEx' vice-president for personnel.

ALPA'S DePETE: *"They want to stop the unions"*

FEDEX VS. ITS PILOTS

The pilots' union has been negotiating its first Federal Express contract for 17 months, to no avail. Major issues in dispute:

OVERSEAS PILOTS
FedEx wants to exclude all foreign-based pilots from the union's contract.

LEASING
Management insists on the right to lease planes staffed by nonunion pilots.

PAY AND BENEFITS
The union is demanding bigger pensions and pay hikes.

DATA: BUSINESS WEEK

FedEx has given a little more slack on pay and benefits. The company has offered a 4% pay hike in the first year of a three-year contract and has mentioned the possibility of a small increase tied to profitability in year three. But the pilots—who haven't had a raise since 1990—want more. Management has agreed to boost the match on its 401(k) plan from $500 a year to $4,500. It also would lift the limit on pe[illegible] payouts. Still, pensions would re[illegible] significantly below those of pilots a[illegible] jor airlines, says ALPA.

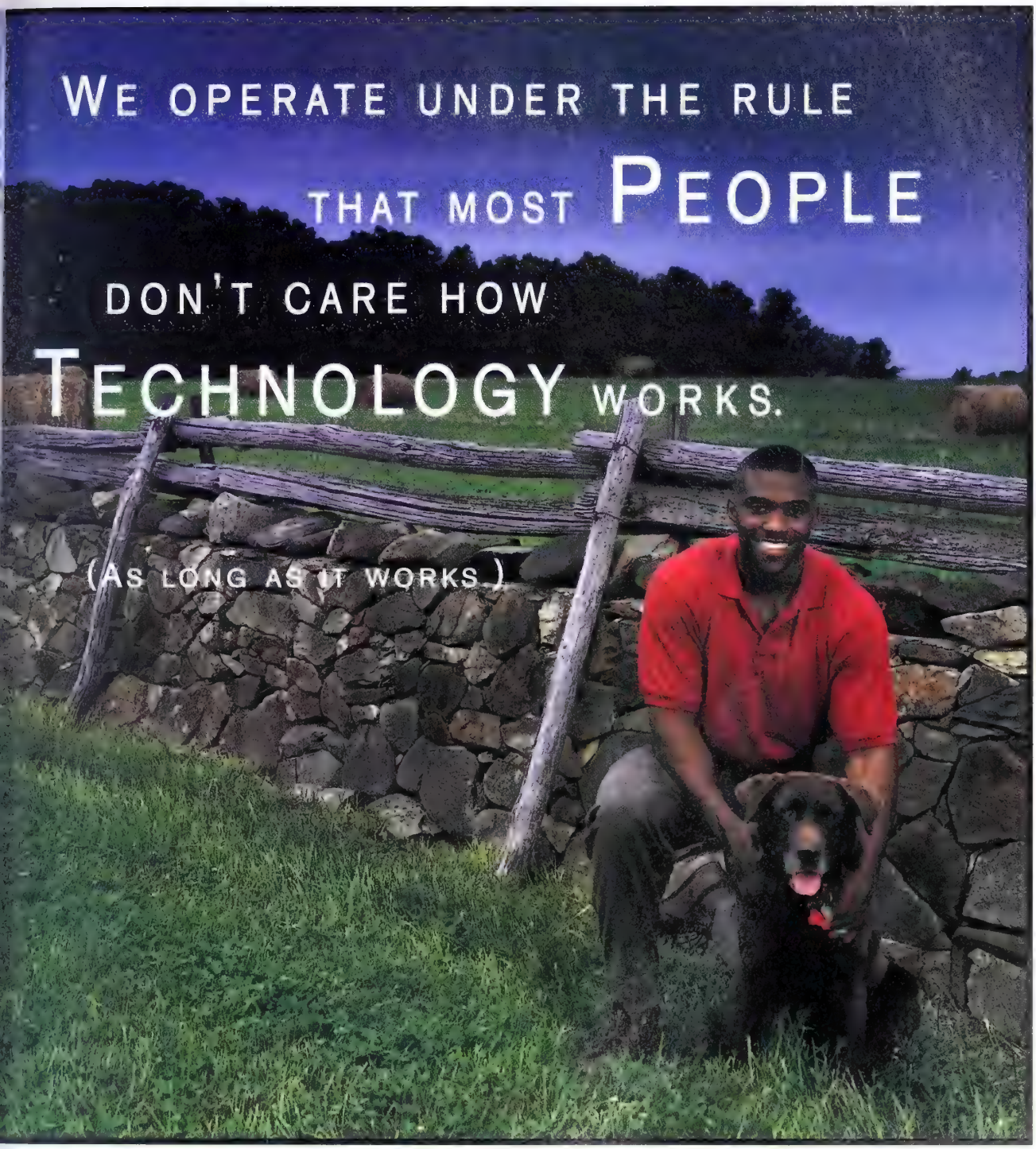
One reason for management's [illegible] nosed position may be ALPA's [illegible] standing among pilots. A rival g[illegible] the FedEx Pilots Association ([illegible] claims to have 1,160 signed req[illegible] for a new union election—just [illegible] short of a majority. While req[illegible] don't necessarily translate into [illegible] ALPA votes, FedEx could end up [illegible] no union at all if both groups tog[illegible] can't get 51% of the vote in a [illegible] election. "There is widespread dis[illegible] faction with the way ALPA has r[illegible] sented pilots," charges David San[illegible] chairman of the comp[illegible] union's steering comm[illegible] He argues that many [illegible] prefer a more concili[illegible] approach and disagree [illegible] ALPA's hardball tactics, [illegible] as the Oct. 30 ad in [illegible] *Today* threatening a ho[illegible] slowdown.

VULNERABLE. Still, Fe[illegible] hard-nosed strategy [illegible] backfire. The company [illegible] it is well-prepared for a[illegible] action, with a syste[illegible] spare planes and crew[illegible] control center that can [illegible] route changes down to [illegible] truck level, and phone b[illegible] in 16 call centers to ha[illegible] most emergencies. [illegible] much of the holiday vol[illegible] is second-day delivery, w[illegible] gives the company m[illegible] time to respond. But A[illegible] counters that over 15[illegible] FedEx' peak-season fli[illegible] are flown by pilots wor[illegible] overtime, which is vo[illegible] tary—and therefore vul[illegible] able to a job action. [illegible] while ALPA's overall m[illegible] bership numbers ar[illegible] overwhelming, ALPA pi[illegible] are concentrated in [illegible] hubs such as Los Ang[illegible] and Newark. "This la[illegible] skirmish couldn't come at a more [illegible] fortunate time for Federal Expre[illegible] says Brian P. Clancy, a shipping [illegible] sultant in Atlanta.

Smith's stance could succeed if eno[illegible] ALPA members decide that defying m[illegible] agement makes them too uncomfort[illegible] in FedEx' usually congenial culture. [illegible] if pilots pull off a successful holi[illegible] slowdown, unions may loom larger t[illegible] ever in the company's future.

By David Greising in Atla[illegible]

Karl L. Brunson presents ideas in California from a phone modem in Manassas, Virginia. Which he finds much easier than hopping on planes all of the time.



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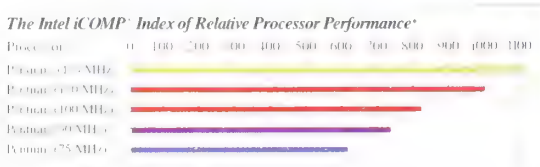

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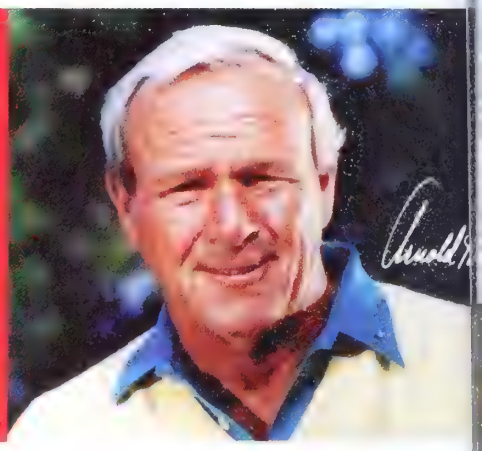

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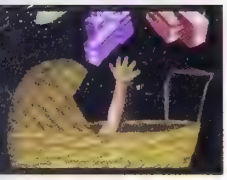
Timely Insights for Small Business



In Box page 2

Useful tips on taxes, online treasures, workers' comp, credit cards, and free stuff.

Technology page 4

s the job at hand too big for you? Link up with ther small companies–and let the data flow.

Companies page 10

Vith its modular houses for export, Chadwick has ound a niche that many a monolith would envy.

Marketing page 12

Golden Oldies Zippo: What's lighter maker to do in the '90s?
Direct Selling The portable boutique: A rich stitch niche.

International page 20

Asia How to land in Bangkok with a suitcase and a Mac–and build a million-dollar business.
Mexico Peso plunge. Culture clash. Franchisees here had better be fast learners, or it's *adios*.

Economics page 26

With inflation around 3% and maybe lower next year, price hikes are a delicate matter. Still, some outfits are finding ways around consumer resistance.

Government page 27

Since 1969, the SBA's 8(a) program has helped minority-owned companies land jobs. Has it worn out its welcome?

Roundtable page 30

Loans, networking, training: Laura D'Andrea Tyson of the National Economic Council sees more help on the way from Washington for women entrepreneurs.

At Your Service page 32

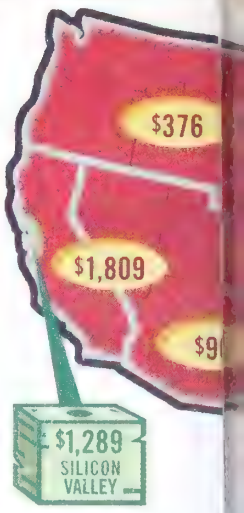
Boards of directors aren't just for the GMs of the world. But setting them up is a bit different for small business.

Wit's End page 35

How do you measure a whale? Ask Commerce–we dare you.

IN BOX

EDITED BY AMEY STONE



Some Good News On Taxes

The tax package now wending its way through Congress has some palpable benefits for owners of small businesses. Here's what's in the works so far:

• Family businesses are expected to get a break on estate taxes, which can be so onerous that heirs are forced to sell or liquidate their businesses to cover them. The American Family-Owned Business Act exempts up to $1.5 million of business assets from federal estate taxes, on top of the current $600,000 personal exemption. For higher amounts, the top rate would be reduced from the existing 55% to 27.5%. Still, many businesses wouldn't be able to take advantage of the proposal because of strict criteria governing what qualifies as a family business.

• Both the House and Senate have various pension-reform proposals in their bills. The most exciting one for small business is Senate Majority Leader Bob Dole's Savings Incentive Match Plan for Employees, or SIMPLE, says Seth H. Tievsky, a principal at Ernst & Young's national tax office. SIMPLE would make retirement plans easier for small businesses to afford and implement, by eliminating nearly all the federal reporting requirements that now determine a plan's eligibility. The employer would be responsible for making a specified level of matching contributions, but not for administering the plan. The House bill for revamping the existing Simplified Employee Pension (SEP) plan also calls for removing some of the administrative hurdles, though not as many as SIMPLE would.

• Health-insurance deductibility for self-employed business owners was increased from 30% to 55% in the Senate bill, but this provision is not in the House version.

TURNING EMPLOYEE EXPENSES INTO FREE MILES

Tired of seeing employees rack up rebates on business-related charges you reimbursed? Wells Fargo Bank has what it says is the only rebate card that lets small-business owners earn free air travel from employees' spending. With BusinessMiles MasterCard, owners earn one "air mile" for each dollar they and their employees spend. The awards—nonrefundable round-trip domestic tickets—can be issued in anyone's name, so owners can dole out the perks.

"Small-business owners work hard. They take risks, and we believe deserve to be rewarde have a little fun," say Lucile Reid, a senior president at Wells Far The ca availab compar with up $5 milli sales. M is cappe 180,000 business or 60,000 per card. Ther $50 enrollment charge business and an annu membership fee of $5 card. To learn more, c 800 35-WELLS.

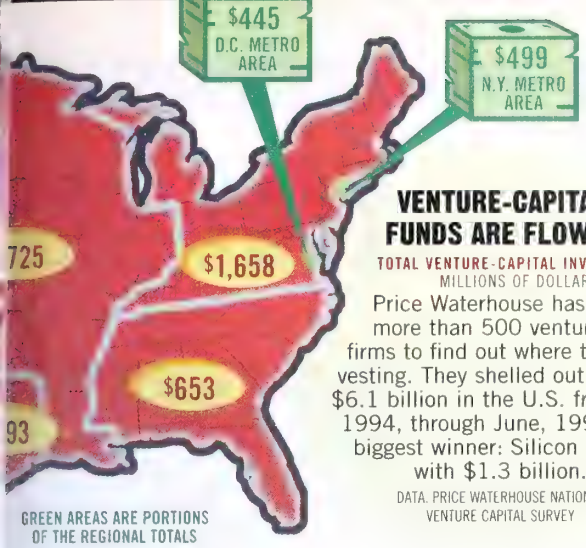
ONLINE RESOURCES TO CHECK OUT

THE IDEA CAFE (http://www.IdeaCafe.com) lively new site on the World Wide Web t seeks to provide small-business folk with sources, information, and expert advice— well as with entertainment and a chance interact. You can reach it through BUSINESS WEEK's Sm Business Center on America Online.

■ **JOBTRAK** (http://www.jobtrak.com) can get your job ing out to your choice of more than 300 college-recruit ment offices around the country. Target only the scho you want. Call 800 999-8725 for information.

■ **THE ECONOMIC BULLETIN BOARD** from the Commerce Dept. (Telnet address: ebb.stat-usa.gov) offers trade le current economic statistics, and analysis of foreign ma kets. An annual subscription to the EBB is $45 plus c nect charges. For a free trial, type "guest" when aske for a user ID, or call 202 482-1986 for more informatio

■ **BUSINESS ADVISOR** is a new service Deloitte & Touc has launched on the Microsoft Network. It includes ad on both personal and business finance. You can reach D loitte & Touche Online through the Microsoft Network Business & Finance Directory.



VENTURE-CAPITAL FUNDS ARE FLOWING

TOTAL VENTURE-CAPITAL INVESTMENT
MILLIONS OF DOLLARS

Price Waterhouse has surveyed more than 500 venture-capital firms to find out where they are investing. They shelled out a total of $6.1 billion in the U.S. from July, 1994, through June, 1995. The biggest winner: Silicon Valley, with $1.3 billion.

DATA: PRICE WATERHOUSE NATIONAL VENTURE CAPITAL SURVEY

FREE STUFF

ıe Women's Business Development Center and the ›ral Reserve Bank of Chicago have prepared a 41- brochure, *Access to Credit: Women, Lenders and ll Business Loans, A Guide*. Call the bank at 312 5111 for a copy.

Rowe Price is offering two new retirement-plan 'mation kits: one on Keogh plans, which need to be ıp by Dec. 31 for 1995 deductions, and another on ›lified Employee Pension (SEP) plans (you have until 15). Call 800 492-7670 to order.

ıe National Cooperative Bank is offering a six-page phlet, *How to Organize a Cooperative*, for those in- sted in a purchasing, marketing, service, or employ- wned co-op. Call 800 955-9NCB to request a copy.

CLEARING CUSTOMS

Coping with customs is no easy trick: Only 36% of 751 small-business exporters surveyed by Federal Express Corp. said they understand the regulations for countries to which they export. In fact, when asked about major obstacles, export managers for businesses with 100 employees or less named customs the No. 1 barrier. Getting products through takes an average of four days, the survey found.

Surprisingly, most businesses told Federal Express they suffer no financial loss as a result of delays. "They are being incredibly naive when they say that," says James J. Wheeler, vice-president of Global Trade Services, noting the phone calls, the aggravation, and the loss of a customer's "good will." The top three markets for small business exports? Canada, Mexico, and the United Kingdom, the survey found.

ARRETEZ-VOUS: A CHECK AT THE FRENCH BORDER

HEALTHIER AT HOME?

v there's some oof that working at e is not only con- ent but good for health, too. Of than 1,000 e-based business ers surveyed by 61% reported that get sick less often people they know work in a group ng. That may not nerely because they d more germs by ng at home: Some of respondents reported that they cise regularly.

Ferreting Out Workers' Comp Fraud

Do you suspect that one of your employees is milking a supposedly work-related injury for all it's worth? There are many ways to identify possible workers' compensation fraud, according to the National Insurance Crime Bureau, which is prosecuting employees for this transgression in record numbers this year. The NICB, funded by insurers, works with police departments to investigate property-casualty insurance fraud. Consider it a red flag if the injured worker:

- Reports that the accident occurred in the early morning, especially on a Monday. It may be a sports-related or weekend injury claimed as having happened at work.
- Says the injury occurred in an area where he or she wouldn't normally be (especially if it's a high-risk area), or if no one witnessed the accident.
- Is facing financial pressures or anticipates disruption in pay due to an impending strike or looming layoffs.
- Has a history of short-term employment or lied on the original job application.
- Changes doctors several times while undergoing treatment for the injury.
- Takes off more work days than the reported accident would seem to warrant.
- Retains legal representation immediately after the accident has occurred.

A CUTTING-EDGE STRATEGY CALLED SHARING

Networking will bolster small-company co-ops

Thousands of small manufacturers are skating on ever thinner ice. Most earn their keep by producing parts for large suppliers who, in turn, serve masters such as the Big Three or the Pentagon. But the Boeings, Chryslers, and TRWs of the world no longer want to bother buying parts from a score of suppliers to build, say, a car seat. To assure quality and to speed products to market quickly, they want one company to take responsibility for the whole thing—or at least major elements of it. For a company with 10 or 15 employees, that can be asking for the moon.

So fiercely independent small manufacturers are being forced to learn a new skill: cooperation. And they'll soon have to pick up another: electronic data interchange.

EDI involves linking companies together electronically so their computers can automatically handle many business chores, from dealing with purchase orders to exchanging engineering blueprints. The system is particularly critical today, when all facets of product development, from design to final assembly planning, happen simultaneously and in different locations. EDI will soon be simply the opening ante to get in the game with major manufacturers in such industries as aerospace, autos, clothing, and electronics.

TALENT POOL. As often happens, EDI is a case where companies picking up new technology skills will have to rethink the way they work. Hundreds of small manufacturers in the U.S. and abroad are doing just that. They are learning to think as one by joining flexible manufacturing networks. And their experiences suggest ways that non-manufacturers may need to evolve in the future, too. The members of these mini-consortiums pool talents for jobs too big for any one of them to tackle. The idea of cooperating or even sharing information with once and future competitors is not a comfortable concept. That's one reason why flexible manufacturing groups are so reluctant to let go of familiar technol-

such as express delivery and fax hines.

oing digital would reap many bene- Small companies could then connect shared database and instantly coor- te production schedules and blue- t revisions, which would help the ıp move more swiftly to and fulfill contracts. The ble manufacturing alliances can eas- ›rganize smaller teams for certain racts that last only as long as it s to get a specific job done. If all sounds like the much-ballyhooed no- of the "virtual corporation," it is. 'hile such a concept may seem foreign to most executives in the job-shop business, others are quick to spot a parallel. "We thought we were a flexible manufacturing group until someone told us we were really a virtual corporation," says Robert E. Steele, chief operating officer of POSItech Manufacturing Group, an alliance of nine small companies in West Virginia. "And it's true. We've become a virtually large company. But instead of farming out work to internal departments, we farm it to our member companies."

NETWORKING

The results speak for themselves. This year, Steele's group has collectively bid on contracts worth $300,000—and won $200,000 in business that no member would have gone after individually. For example, a six-company team recently shipped 12,000 tank-tread parts. Producing them was "beyond the ken of any one company," says Steele, "and we have two open contracts for more."

Currently, only the lead company, POSItech International in Wheeling, where Steele heads the Aviation Div., has a computer system that can swap EDI data with its customers. But Steele is urging the rest of the group to install EDI systems, since that would eliminate a major source of errors: manually translating the engineering data on faxed blueprints into the digital language of computer-controlled machine tools.

Moving to EDI will soon be necessary to bring POSItech and similar groups into compliance with orders from the Pentagon and major manufacturers. The Defense Dept. says it will require electronic interchange as soon as 1997 for contracts of less than $100,000. And by 2005, EDI could be mandatory for all federal purchases. The National Institute of Standards & Technology, the International Standards Organization in Geneva, and several industry groups have defined the uniform formats needed for such electronic commerce, and the Pentagon is funding a nationwide effort called CALS. That used to stand for Computer-aided Acquisitions & Logistics Support but now means Continuous Acquisition & Lifecycle Support. Whatever the name, the program provides advice and resources in getting EDI going .

Considering the potential benefits, EDI is not very expensive. Setting up a system—including a computer, modem, software, and certification of compliance with EDI standards—can cost as little as $3,000 to $5,000. Communications charges via a special EDI network vary with volume, but might run $150 a month for a small company.

ITALIAN IMPORT. The idea of collaborations among manufacturing companies first wafted into the U. S. 10 years ago from northern Italy. There, legions of tiny, cottage-industry companies belong to multiple support networks. The 25,000 mini-companies in Italy's Emilia-Romagna region, for example, support hundreds of flexible manufacturing networks. The advent of these "flexnets" in the late 1970s has been a boon for exports and a tonic for the local economy. By 1985, the region had Italy's second-highest per capita income, up from No. 17 a decade earlier.

Some 250 manufacturing co-ops—most prime candidates for EDI—are now scattered across the U. S. Perhaps twice as many are being planned, according to USNet, a Chapel Hill (N. C.) organization that assists state agencies in creating flexnets. Erie, Pa., is home to a close cousin of POSItech, the EBC Industries network. Like the POSItech group, there's a lead company, EBC Industries Inc., that has surrounded itself with a dozen local machine shops that have complementary talents in various aspects of metalworking. Since 1986, when EBC President Harry E. Brown took over the company, sales and employment have tripled, to $8.2 million and 80 workers. "A good deal of that has come from networking," says Brown. "And right now, we're about two steps from EDI."

This company-centric model is not the rule. But flexnets come in so many styles and flavors it's hard to tell just what the norm is. They span the industrial waterfront, from bookbinding and dressmaking to fishing and logging. A few groups have 100 members or more, but most have 5 to 15. The atmosphere can be autocratic or participative. Sales and service may be handled jointly by the companies' existing staffs, or centrally by someone who works full-time for the group—or even by independent reps. Probably the one safe bet with flexnets is that a local chapter of the National Tooling & Machining Assn. helped get things rolling.

It was the NTMA, for example, that

When Competitors Collaborate

Small businesses are getting a big boost from flexible manufacturing networks, or alliances of several manufacturers who cooperate in winning and filling contracts. Here's a theoretical example of how such a network might produce a mousetrap:

ALICIA MUNROE IS BUSINESS MANAGER at Agile Production Team, a group of five small companies. She persuades NetTrapper to allow APT to bid on a $700,000 contract for hardwood mousetraps. Munroe analyzes the data on the product's rosewood base, the snapper spring, and the bait plate, matching the various parts to the expertise of APT members. She figures four members could make one or more parts: Accurate Metalbending, Autopiping, Wound Up Rolling, and Zeus Technology.

FROM HER HOME OFFICE, Munroe faxes the specifications to the four companies, inviting them to bid on individual parts. Autopiping comes in with the lowest price on the wood base. Zeus Technology beats out Wound Up for the snapper. Accurate Metalbending wins the bait plate. Munroe combines these quotes and sends off the APT bid.

APT WINS, AND MUNROE HANDS OUT the contract prizes to Zeus and Accurate Metalbending—and Autopiping, which also will handle final assembly and shipment of finished traps. The purchase orders include an added "tax" of 3% to help cover Munroe's expenses.

WHILE PRODUCING THE PLATES for trap No. 2,854, Zeus's machinery goes haywire. Munroe gets a frantic call for help. In such emergencies, APT's members have agreed to take up the slack at the winner's price. Wound Up steps in.

AFTER APT DELIVERS THE LAST TRAP, meeting all quality targets, NetTrapper rewards APT with a follow-on contract worth $250,000.

provided some seed money in Wichita for Kansas Manufacturers Inc. Of the 20-odd job shops in this flexible manufacturing group, only one has annual sales of more than $4.5 million. Yet acting in concert, KMI recently snagged a $1.7 million order for auto parts from Sweden's Haldex Corp. In Athens, Ohio, ACEnet is helping 40 local food companies perfect processing methods and marketing techniques. The Columbus (Ind.) area is home to FlexCell Group: It has a core of 10 metalworking shops and, like the other cooperatives, is training its sights on EDI.

Seattle companies began assembling networks in the wake of defense downsizing and Boeing Co.'s outsourcing of more work to foreign suppliers. The Pacific Manufacturing Group, a collection of eight little job shops, was formed in 1992. PMG scored its first big win in late 1993: a $500,000 job for bulkhead doors in Navy ships. Since then, PMG has won a $300,000 follow-on contract, "and we hope to continue building more of these doors," says Lea E. Cole, the group's business manager. She's the point person who wins new business by selling PMG as a virtual company.

FALSE STARTS. Cole, a former procurement specialist at a customer of a PMG member, came on board last February. Since then, PMG has bid on contracts worth $1.3 million—and landed about 20% of that amount. "Lea is the reason we're beginning to really turn on this," says John A. Cournoyer, president of PMG and of Accurate Machining in Mukilteo, Wash. Earlier, there had been some false starts, he admits. At one point, several PMG members "just couldn't cooperate with competitors and share what they considered confidential information. Without trust," Cournoyer stresses, "you don't stand a chance." Now that the comfort level has risen, PMG is ready for the next step: It wants to move to EDI next year.

PMG could be just the beginning, if J. Paul Knox has his way. As a manager in Washington State's Community Development Dept., he helped PMG get off the ground with a two-year, $35,000 grant. The companies more than matched that, ponying up $50,000. So last year, Knox amassed a $650,000 kitty of federal, state, and private funds to begin creating PMG clones. In the wr now are an Aerospace Alliance of 30 companies and a coalition of P Sound shipbuilders and repair fi Washington has also joined USNet t year-old consortium of 15 states an at creating the infrastructure to fa tate more networking.

USNet is run by Chapel Hill's Re al Technology Strategies Inc. and fu ed for three years with $2.7 million fo the Pentagon's Technology Reinve ment Project and sa membership fees $25,000 a year. Originll says USNet Directo Trent Williams, "we hd heavy electronics orie tion." He figured a l time would be devote promoting EDI syst and Internet access fo flexnet members. B companies first had learn the basics of wr ing together, so USNet so far been involve helping define the ess tial baby steps.

USNet's electronics sion is about to take su in Connecticut, howe The state-supported Fl ible Manufacturing Ne works Center (FM based at Central Conne cut State Universit New Britain, was to the switch in Novem on what may be Am ca's first state-sponse electronic-commerce sy tem. It is designed to pr vide cut-rate EDI ser for the state's five ex ing flexnets as well as ev en more in the plann stage. Officials also ho to bring in dozens of Co necticut's 5,000 other sm manufacturers, most which depend heavily o defense business. "Th EDI problem is one th here right now," sy FMNC Director Alan Kendrix. "Small manu turers are being told these large companies ther do it or we'll fi someone else who will. In that environment, w small company want t be the last to change?"

By Otis Port in New Y

For More Information...

Here are some selected sources on flexible manufacturing networks and electronic data interchange (EDI).

BOOKS

CONCEPT OF OPERATIONS DOCUMENT This how-to manual for small companies thinking about forming a flexible manufacturing network will soon be available from the West Virginia High Technology Consortium Foundation in Fairmont, W. Va. (304 366-2577). The manual will include sections on legal issues, organizational structure, and EDI. Cost: Mailing fee only.

THE WHY EDI GUIDE FOR SMALL AND MEDIUM-SIZE ENTERPRISES looks at the experiences of 127 small companies from around the world, with in-depth case histories on 12 of them. Published by EDI World Institute in Montreal. Phone 514 288-3555; fax 514 288-4199; E-mail ediwi@ediwi.ca. Cost: $30.

ORGANIZATIONS

DATA INTERCHANGE STANDARDS ASSN. in Alexandria, Va. (703 548-7005). DISA's World Wide Web address on the Internet is http://www.disa.org/.

EDI WORLD INSTITUTE in Montreal (514 288-3555). Internet Web address: http://www.ediwi.ca/ediwi/.

ELECTRONIC COMMERCE RESOURCE CENTERS (ECRSS, formerly known as CALS Resource Centers) in California, Georgia, Ohio, Pennsylvania, Texas, Virginia, and Washington State. Administered and funded by the Pentagon's Advanced Research Project Agency (703 681-3490). ECRCS have industry experts on call. Details are on the World Wide Web at http://www.ecrc.ctc.com/.

NATIONAL INSTITUTE OF STANDARDS & TECHNOLOGY (NIST) in Gaithersburg, Md. (301 975-5020). NIST's Manufacturing Extension Partnership (MEP) program has field offices across the U.S. Web pages: http://www.nist.gov/ and http://www.mep.nist.gov/.

NATIONAL TOOLING & MACHINING ASSN. in Fort Washington, Md. (301 248-6200).

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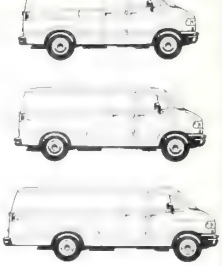

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HOMES ACROSS THE WATER

Chadwick exports–and finances–houses around the globe

STEP 1: VIRGINIA
Henderson and Nocera arrange financing, often 85% guaranteed by the U.S. Export-Import Bank

Owning your own home: It's the American dream. Now, a northern Virginia company has found a way to package that dream and export it. Chadwick International Inc. sells modular homes—light fixtures and financing included—in emerging markets abroad.

For the parochial U.S. housing business, where even crossing the county line is a big deal, Chadwick is a true maverick. Exports aren't just a sideline for Chadwick; they're all it does. In its current fiscal year, the four-year-old startup expects revenues of $65 million, triple last year's—100% from exports of modular homes made in Florida and shipped from Jacksonville.

EXPORTING

They're not just shipping to run-of-the-mill foreign markets, either. Tiny Chadwick operates in places that U.S. companies 10 times its size shy away from. It has upscale housing projects in various stages of completion in Algeria and the Ivory Coast. And the company says it is negotiating 30 more deals worth $560 million with developers from Argentina to Vietnam.

Where others see only political strife and currency risk, Chadwick sees opportunity. "Demand for housing in Africa, Asia, and Latin America is on the order of 100 million units," says Ronald M. "Mickey" Nocera, Chadwick's chairman and chief executive officer. "There's probably only enough money there to build about 5% of that. Still, even if we used every available U.S. manufacturing plant, we couldn't begin to meet that need."

Local homebuilders in many of Chadwick's best markets are no match for its product and expertise. "In many of these countries, the quality of local construction is pathetic, and they lack accoutrements that a U.S. builder can provide," such as double stainless-steel sinks, says Gary Collins, vice-president for international trade at NationsBank Corp., one of Chadwick's lenders. "I can take a local supplier up to two years to build a house, whereas Chadwick can deliver 100 houses in a few months."

CUSTOM TOUCHES. Chadwick has another edge: It designs single-family and duplex homes to local tastes and building codes. Then it has them constructed by a Florida manufacturer. For a developer in Islamic Algeria, for example, Chadwick designed stucco-walled units with interior rooms that can be closed off to allow women to move freely without being seen by men. Chadwick homes are shipped in two pieces on specially configured container ships and assembled by local crews that Chadwick trains and equips with all necessary tools. Once on site, the homes are finished, ready to move into, at a rate of six a day. The cost of the duplexes in Algeria: about $49,000, including freight.

Financing is the critical element in Chadwick's package. In many developing countries, prospective buyers—typically foreign-government agencies, banks, or private syndicates—lack cash and access to commercial markets. Chadwick generally arranges five-year financing from international money-center banks, 85% of which is often guaranteed by the U.S. Export-Import Bank. Ex-Im's participation cuts the interest cost—in some markets from 14% to as little as 7% or 8%. The buyer or foreign bank provides the remaining 15%. In a typical deal, the company agrees to

STEP 2: FLORIDA
Chadwick designs single-family and duplex homes to local tastes and building codes. Then it has them constructed by a manufacturer in Bartow. The homes are loaded in two pieces onto specially configured container ships and shipped out of Jacksonville

ıpply 100 to 200 homes for $10 ıillion.

Many U.S. banks that finance ·ade deals shun small transac- ons. So Chadwick takes care of ıe paperwork. It prepackages ll the documents, from drafting ıe commercial contract to ob- ıining the bill of lading. "We and the bank a finished prod- ct as well as arrange all the lo- istics, such as shipping and stor- ge," says Chadwick President eorge S. Henderson Jr.

Chadwick's familiarity with the rcane details of trade-finance n't surprising. Before starting p the company, Henderson pent 20 years at Ex-Im. His enure included a stint as deputy f the claims division, where he aw close up how deals can turn our. Chadwick's ties to Ex-Im on't end there. Three other senior offi- ers are also alumni of the bank. Ex-Im, hich is aggressively targeting small xporters, recently authorized a $3.5 illion working-capital loan for hadwick.

Bankers who have worked with hadwick think the young company has winning formula. "Financing will be he key to Chadwick's success," says tephen S. Atallah, a vice-president in ociété Générale's export-trade finance roup in New York. "The more diffi- ult the market, the more valuable that ." Adds another bank executive who as worked with the company: "It ould be nice if our big corporate cus- omers knew the finance side as well s Chadwick does."

Even so, it took Chadwick three ears to complete its first project, a $20 illion contract to supply 412 homes to lgeria's Caisse Nationale D'Epargne t de Prévoyance, a government-owned avings bank. The project was financed y Citibank, with Ex-Im guaranteeing 5% of the loan.

Chadwick's involvement in Algeria as more by fluke than design. Nocera was an East Coast real estate developer who had never worked abroad before he co-founded Chadwick in 1991. He was mulling possible overseas ventures when an Algerian acquaintance offered to arrange a meeting with real estate contacts in Algiers. The meeting didn't lead to a deal, but Nocera stayed for three weeks. Every day, he toured the country with an interpreter and was astounded by the number of rusting, unfinished construction projects in a country with a housing shortage estimated at more than 2 million units.

STEP 3: ALGERIA

Once on site, the homes are assembled and finished, at a rate of six a day, by local crews that Chadwick trains and equips. The cost of these duplexes: about $49,000, including freight

SHAKEDOWNS. Breaking into the market was tough. Chadwick's financial acumen didn't count for much when it applied for permission to open an office in Algiers. "Every Sunday, I'd go to the central bank to see if the documents were in order, and every time, there were more questions," Henderson recalls. The authorities finally approved the request—2½ years after Chadwick applied. Then there were the occasional not-so-subtle shakedowns by middlemen. "You have to say no, and if it comes up again, you have to be willing to walk away," says Nocera.

When it comes to doing business in the Middle East, "you can't be too anxious," says Nocera. "They have to feel comfortable with you." To build trust, Nocera always travels with framed photos of his family to show to prospective foreign partners.

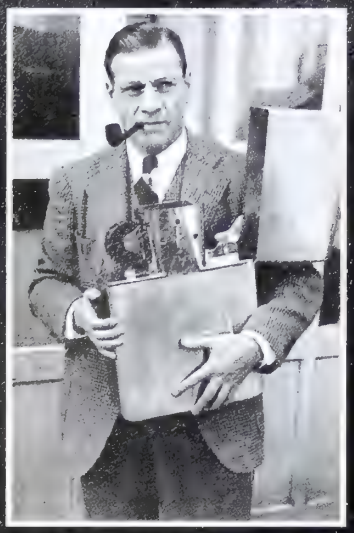
The patient approach seems to be paying off. In June, Chadwick inked a third deal in Algeria, an $11.7 million contract to export 100 modular homes to a syndicate of wealthy Algerians who are paying cash up front.

But financing can be a big hurdle in poorer countries, particularly in those that aren't eligible for Ex-Im guarantees. Some big banks refuse to finance deals in countries that Ex-Im shuns. Others insist on high interest rates. To keep financing costs down for a project in Vietnam, which is off-limits for Ex-Im, Chadwick is putting together a consortium of banks that will each kick in a small portion of the loan in exchange for a lower rate. "It's very tough going," admits Henderson.

Given the financing constraints, some trade experts question the size of the market niche Chadwick is targeting. Countries where financing is easier to obtain tend to be more developed—and therefore not as hungry for foreign homebuilders. But if Chadwick can keep coming up with creative financial solutions—and manage its explosive growth—it could be an exporter to watch. "There's a lot more money out there than there are good deals," says Henderson. "We're going full-speed ahead." Anchors aweigh for Chadwick's U. S. S. American Dream.

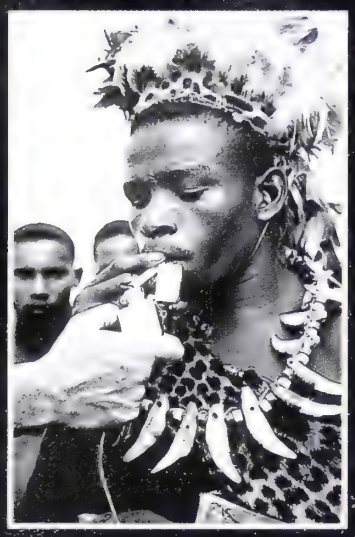
By Amy Borrus in Washington

Marketing



GEORGE BLAISDELL'S WINDPROOF LIGHTER WAS STANDARD ISSUE IN WORLD WAR II, AND POPULAR IN VIETNAM

WITH LICENSING DEALS AND ITS OWN MUSEUM, ZIPPO IS A "MYTHICAL AMERICAN BRAND"



HOW ZIPPO KEEPS THE FLAME LIT

In an antismoking environment, it's targeting collectors

On a cool day last July, Betty Linton stood under a big tent in Bradford, Pa., surrounded by thousands of cigarette lighters. They were piled high on tables: old lighters promoting Heinz and Harley-Davidson and Phillips 66, banged-up lighters that crossed the Channel on D-day, and kitschy ones from the 1970s, decorated with the fat Elvis.

Linton, an auto worker from Milwaukee, is a smoker, but she wouldn't dream of using anything but a match to light up. Like most of the collectors who gathered for a giant Zippo lighter swap meet on the western Pennsylvania grounds of Zippo Manufacturing Co., she has a reverence for lighters that extends far beyond their firepower. "I rarely use a lighter because I don't want to ruin or lose one," she says.

Music to James Baldo's ears. Baldo, the Zippo sales-and-marketing vice-president who put together the swap meet, is counting on collectors such as Linton to keep driving up sales of Zippo lighters even as smokers kick the habit and the government threatens to regulate cigarettes. To mobilize collectors, Baldo, 47, organized National Zippo Day. And from the fervor of the Japanese and Germans, the Texans and Kentuckians under the big tent, you'd think the vendors were selling cut-rate options on Microsoft shares. "I could spend $20,000 here," says Clayton Vecellio, a retired trucker from nearby Lewis Run, Pa. Collectors, predicts a smiling Baldo, "will keep the flame burning."

Baldo, who came to Zippo from bicycle maker Huffy Corp. seven years ago, faced two daunting challenges when he took on his current job at the 64-year-old privately held company in 1990. Zippo had great brand recognition, stemming from its role as standard GI issue during World War II, but the generation that carried Zippo lighters into battle was flickering. Baldo needed to spark interest in younger buyers. That's where he ran up against his second problem. With a vigorous antismoking backlash in full force, having your product identified mainly as a cigarette accessory was not a marketing plus.

FISH BELLIES. Clearly, collectors were the key to growth. After all, smokers might buy only one or two of the lighters—each of which carries a lifetime guarantee. Plenty of 1940s-vintage Zippos still show up for repairs at the Zippo shop, which has fixed lighters retrieved from the bellies of fish and lighters punctured by bullets. Collectors, on the other hand, "buy six and give them away, and encourage their friends to become collectors," says Baldo. And as the Zippo pilgrims at Bradford readily attest, collectors just don't stop buying. "I have a couple thousand of them," says Jack Stroble, a retiree from Hilton Head, S. C.

Baldo, a cigar smoker, says he didn't appreciate at first the power of the venerable windproof lighters as collectibles. But when he noticed nonsmokers buying Zippos, he commissioned a study from

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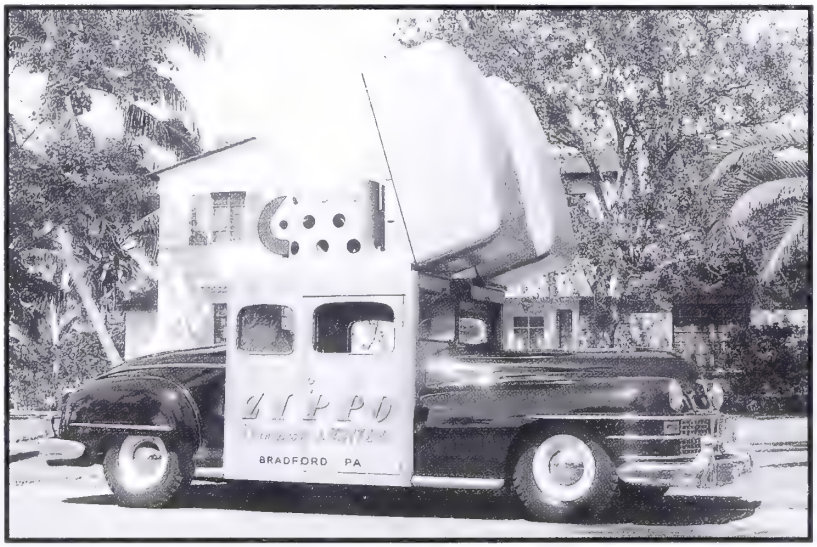
Marketing

Pittsburgh's Allegheny Marketing. The stunning results: More than 90% of Americans recognize the Zippo brand, and fully 30% of Zippo's customers are collectors. While a basic brushed-chrome Zippo runs $10.95, collectors will pay much more. Stuart P. Katz, a New Jersey dealer, has a 1932 hinged Zippo with the initials of Zippo founder George Blaisdell that he says is worth $3,000.

Adding to Baldo's marketing prospects, he quickly saw that Zippomania didn't end at American shores. Indeed, Zippos conquered foreign markets from the pockets and knapsacks of American soldiers. Supplying the armed forces during World War II kept Zippo so busy it couldn't keep up with demand at home. And after the war, the lighters, with their distinctive click, became a treasured piece of Americana from Germany to Japan. "It's a mythical American brand, like Harley-Davidsons or Levi's," says Hènia Powczer, Zippo's advertising agent in Paris.



ROAD MARKETER: *This 1947 Chrysler was seen in parades through the '60s*

ROCK ICON. To exploit the collector market, Baldo helped to organize Zippo collector clubs in Europe and Japan as well as the United States. But the collecting rage seemed to spread even faster than he could supply it. In 1991, Baldo's first full year on the job, Zippo sales doubled, to more than $100 million, with only a 5% price increase. "We didn't see it coming," Baldo says. To keep up with demand, Zippo added $25 million of new manufacturing space to its Bradford factory. Meanwhile, Baldo stoked demand with yearly collectible lighters. Zippo has already sold 600,000 of this year's four rain forest theme lighters. Each carries part of a rain forest scene and can be bought separately or in a set for $129.95. Even disposable-lighter companies, confronting a sluggish market for smokers, are appealing to collectors. BIC Corp. is selling a limited-edition line of psychedelic lighters.

Baldo gets a big boost from Zippo's icon status, which generates the kind of publicity money can't buy. Rolling Stone Keith Richards, who smokes on stage, keeps a Zippo as close as his guitar. Movie heroes from Bruce Willis to Harrison Ford have used Zippos to ignite fuses, burn documents—even to light cigarettes. Overall, sales continue to grow at nearly a 10% yearly clip and will top $150 million this year, says Baldo.

Zippo, founded by an oil engineer who saw a market for a good-looking lighter that would work even in the wind, employs 1,085 in a town of 12,000, making it far and away Bradford's biggest company. Although George Blaisdell died in 1978, there's still a lively family presence. His two daughters own the company, and while they aren't active in management, their children are. The family has also lent its name to a school and two swimming pools. And last year, Zippo opened a lighter museum to keep the company history alive. One display features the Zippo that journalist Ernie Pyle held as he set [illegible] across the Pacific in 1945. When sail[illegible] asked him where they were going—[illegible] tightly held secret—Pyle scratched [illegible] word on his Zippo: Tokyo. Then, [illegible] passed it around.

But no matter how rich its histo[illegible] Zippo can't afford to live only off [illegible] past. Its business is fundamentally t[illegible] to smokers, and it could suffer from [illegible] Clinton Administration's proposed tob[illegible] co regulations. Ci[illegible] rette makers ore[illegible] thousands of Zippos [illegible] promote their bran[illegible] distributing them [illegible] smokers in exchan[illegible] for coupons. "They [illegible] substantial customer[illegible] says Zippo CEO Mich[illegible] A. Schuler. Under [illegible] proposed regulatio[illegible] such promotions wo[illegible] be forbidden.

BRIGHT IDEA. Consid[illegible] ing the White Hous[illegible] campaign against te[illegible] smoking, Baldo face[illegible] delicate task: selling [illegible] the youth market, [illegible] 18-to-34-year-olds w[illegible] have no nostalgia [illegible] Zippos. To help get [illegible] brand in the hands [illegible] younger buyers without provoking t[illegible] ire of antismoking forces, Zippo h[illegible] come up with a new version of its pr[illegible] uct for folks who don't smoke: the Z[illegible] Light, which houses a battery-power[illegible] flashlight in a traditional lighter casi[illegible] Zippo is spending $500,000 to advert[illegible] the ZipLight on TV and is testing [illegible] first commercials on youth-orient[illegible] shows such as *Seinfeld*, *Friends*, a[illegible] *Saturday Night Live*. Print ads v[illegible] run in *Spin* magazine. Zippo [illegible] branching out in other ways, too, w[illegible] Zippo pens, belt buckles, and mon[illegible] clips, all with a lifetime guarant[illegible] Two years ago it bought W. R. Ca[illegible] & Sons Cutlery, a knife maker big[illegible] the collectors' market.

Rolf Loeser, Zippo's managing [illegible] rector in Germany, says the compa[illegible] has to soft-pedal its pitch to t[illegible] young. So instead of mass-media a[illegible] vertising, Loeser has used conce[illegible] promotions and other events to po[illegible] tion Zippo as a hip accessory for t[illegible] under-30 crowd. The strategy help[illegible] him pull off an improbable feat: La[illegible] year, Germans bought 50,000 D-d[illegible] commemorative Zippos. Now tha[illegible] marketing.

By Stephen Baker in Bradford, P[illegible]

ZIPPO FACTS

FOUNDED 1932 by George Blaisdell

NAMED FOR the then-recently invented zipper because Blaisdell liked the name

NOW OWNED BY Blaisdell's daughters, Sarah Dorn and Harriet Wick

MOST UNUSUAL PROMOTIONAL VEHICLE The pre-World War II Zippo car

NUMBER OF EMPLOYEES 1,085

ESTIMATED 1995 SALES $150 million-plus

BIGGEST RETAILERS Wal-Mart and Things Remembered (division of Cole National)

NUMBER OF CURRENT LIGHTER MODELS 550

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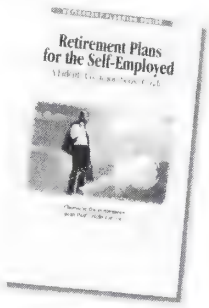

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HOME SHOPPING —WITH NO TV

For busy women, personal wardrobe service is a godsend

Patricia Finn, a 38-year-old securities trader, doesn't have a lot of time to hunt for clothes. But then, she doesn't need it. With each change of season, her personal wardrobe consultant comes to her Manhattan apartment armed with samples and swatches from the Doncaster Collection, a line of women's clothing sold by appointment only. Ninety minutes and roughly $2,000 later, Finn has her wardrobe. "It's much easier for me to shop this way," says Finn. "I don't have to go running from store to store."

For decades, women have bought housewares and cosmetics in their homes from such companies as Dart Industries Inc.'s Tupperware and Avon Products Inc. More well-heeled professional women with no time to prowl the stores are buying clothes in private showings, too. A clutch of small apparel makers, eager to bypass domineering retailers, are selling their wares through direct-sales agents who show off the goods at trunk shows at home, at their customers' houses, or even in a hotel suite.

HOUSE CALLS. Apparel makers and their reps have to make up in superb service what they lack in selection. "Personalized service is what drives the business and distinguishes us from traditional retailers," says David DeFeo, president of Doncaster in Rutherfordton, N. C., a division of privately held Tanner Cos. Founded in 1931, and with estimated sales of $50 million last year, up 14% from the year before, Doncaster is the oldest of the direct-sales women's apparel companies. Doncaster's 3,500 reps keep a detailed file on each client's preferences. If a customer can't make it to a show, they will bring samples to her home or office.

DIRECT SELLING

Doncaster's success has spawned a host of imitations. New York's Carlisle Collection Ltd., an upscale collection with a network of 800 agents, was founded in 1980 by a former Doncaster designer. And Worth Collection, also in New York, was started in 1991 by two former Carlisle designers.

Other small clothing makers are shifting to direct sales as a way to survive a ferocious retail environment. In 1988, French Rags in Los Angeles sold $10 million worth of knitwear to department stores but lost money. Brenda French, the owner and designer, says stores tried to dictate styles, ordered only parts of her collection, and merchandised poorly. Half of what they ordered was returned, and payments were late. Now, she sells her sophisticated skirts, jackets, and vests for professional women through 65 reps, and she manufactures only after clothes are ordered and paid for. Sales are much smaller now, at $6.5 million last year, but net profit margins run between 10% and 15%.

While other manufacturers get most of their feedback through the retail, direct sellers hear loud and clear what customers like—or don't. Doncaster's DeFeo says that he gets "very vocal" comments on everything from buttons to size ranges from reps who have an interest in making improvements—to the 25% sales commission.

That's not to say direct selling will be for everyone. The high level of service dictates high prices. "My clothes are for women who can spend $1,000 without batting an eye," says French. "The nature of the business is in high-ticket items and low transactions," says Peter Simon, consultant at NPD Group in Port Washington, N. Y.

And don't look for cutting-edge fashion. Direct sellers want their customers to build on previous purchases with new pieces each season, ruling out radical redesigns. Customers also will find a department-store-size selection. They can get almost any color or fabric they want, but they have to picture for themselves how the finished garment will look. Then, they must wait three to six weeks before their purchase arrives in the mail.

These direct sellers aren't about to put Nordstrom's out of business. Nevertheless, smart marketers who offer classic, comfortable business clothing may be able to sew up a niche serving women such as Finn, who have more money than time.

By Silvia Sansoni in New York

A HIGH LEVEL OF ATTENTION MEANS HIGH PRICES

The Portable Boutique

DONCASTER Sales: about $50 million. Sales agents: 3,500. Price of an outfit: $300-$450

CARLISLE Sales: about $65 million. Sales agents: 800. Price of a suit: $700

WORTH Sales: $30 million. Sales agents: 400. Price of a jacket and skirt: $650

FRENCH RAGS Sales: $6.5 million. Sales agents: 65. Price of a winter jacket: $560

DATA: BUSINESS WEEK

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Solutions for a small planet

DUNNE DEALS: *How to penetrate a seemingly impenetrable market*

HE CAME, HE SAW, HE'S CONQUERING

Michael Dunne helps foreigners do business in Asia

When Timothy Dunne took his brother Michael to the airport in July, 1990, he didn't even ask when Mike would come back from Thailand. He figured it would be about six months. "He had a suitcase in one arm and a Mac slung over his shoulder, but he didn't have a job, didn't know anyone, and hardly had two nickels to rub together," Tim recalls. "Did I think he was nuts? Well, yeah."

Four years later, Tim was Bangkok-bound himself, leaving the familiar surroundings of his native Detroit to become director of research at Automotive Resources Asia Ltd. (ARA), the rapidly growing company his older brother had founded. Starting with just two clients in late 1992 from an office above his kitchen, Michael Dunne has built a company that expects to take in $1 million this year. ARA's 20 employees—including Mike's college roommate—are scattered throughout Bangkok, Beijing, Ho Chi Minh City, and Detroit. ARA's mission: to help foreign companies large and small break into Asia's booming auto markets.

ADVENTURE

For Mike Dunne, 32, going global isn't just for companies with billion-dollar purses and brand-name recognition. He figures that as mature markets shrink in the West, small companies and adventurous entrepreneurs can capitalize on the wealth of opportunities in Asian countries, too. "In Asia, the longer your commitment, the greater the dividends, both personal and professional," says Dunne.

Consider what he was able to accomplish for Chrysler Corp. In 1993, Ken Ivan, then Chrysler's Southeast Asia director, put 150 Jeeps bound for Phnom Penh in storage in a Bangkok customs warehouse while waiting for hostilities to cease in Cambodia. During the three months the cars spent in the warehouse, customs officials bumped the storage rate from the initial $3 per day per car to a steep $43. The final bill, $457,000, just about pushed Ivan over the edge.

So he called Dunne, who was already helping Chrysler on a tax matter. "Mike," Ivan said, "I've got a problem here." The desperate Chrysler executive wanted the young American to use some of his contacts with officials in the Thai Finance Ministry and Board of Investment. Instantly, Dunne gave Ivan a crash course in Asian negotiating style: Keep your cool. Don't confront. Be persistent. Compromise and it'll work out. With that in mind, Ivan became a frequent visitor to the Customs Dept. and the Port Authority. After six weeks of difficult negotiations, the Thais agreed to knock 30% off the bill. As it turned out, the episode enabled Chrysler to develop a long-term

DUNNE'S TIPS FOR AMERICANS IN ASIA

- Study the country's and region's culture–not just the vital statistics
- Join up with a U.S.-based trade association or a U.S. Commerce Dept. office
- Team with local affiliates of larger U.S. companies
- Offer face-saving compromise when problems arise
- Establish personal relationships through frequent meetings with local executives

DATA: BUSINESS WEEK

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ITT HARTFORD

International

and vital working relationship with the customs authorities.

Dunne had the good fortune to be building his business just as Detroit began to get serious about the possibilities in Asia. Besides Chrysler, Dunne has acquired an impressive list of clients that includes such big names as Dana, TRW, and Volvo Truck, as well as smaller companies such as City Machine Tool & Die Co. Ltd., a Muncie (Ind.) producer of specialized industrial machinery. Eschewing the term "consultant," which he considers vague, Dunne describes ARA as a "reconnaissance and investment company." Services include research, identification of partners, local representation, and support in government and private negotiations.

SUCCESS STORY: *ARA helped Chrysler put Jeeps on the road in Bangkok*

ROOM TO GROW. Dunne shatters the notion that Asian markets put up fortresslike barriers to U.S. small businesses. He was not only able to found a successful consultancy for himself but also able to help City Machine, a tiny newcomer to Asian markets, get contracts in countries as seemingly impenetrable as Thailand and China. Asia now makes up 10% of the machinery maker's total sales, which have doubled in the past two years.

For Americans, setting up shop in Thailand is surprisingly easy. Under a 1968 treaty, U.S.-owned and -managed companies can be locally incorporated. But there are potential pitfalls. For example, while Thailand has double-taxation agreements with 26 nations, including most of Europe, it doesn't have one with the U.S. That means small businesses such as ARA that are without the clout to make special deals with Bangkok are taxed by both U.S. and Thai authorities. That penalty probably won't last forever, though, since Washington and Bangkok are finally making progress on a double-taxation agreement.

With Asian auto markets booming from Bangkok to Beijing, Dunne sees plenty of room for growth. He has earned high marks from his customers so far. Chrysler's Ivan calls him "probably the most knowledgeable person in Asia on the auto industry today." But his company is small and would be hit hard if a major client walked away.

The auto industry was a natural for a Detroit native whose father was the longtime autos editor of *Popular Mechanics*. But the path to Asia was less direct. "I grew up in a city in decline," Dunne says. "I thought, 'there has to be more than this.'" So after enduring the U.S. Marine Corps Officer Candidate School's grueling Platoon Leadership program, he studied politics for a year in France and then spent two years teaching English in China. Finally, in 1988, he headed back home to get an MBA and an MA in Chinese and Thai studies from the University of Michigan.

He found the transition almost more than he could cope with when he arrived in Thailand in 1990. "I had huge expectations of what I could do here," he says. Those were nearly dashed during his first year in Bangkok, when he barely supported himself by working as a freelance writer and researcher. His break came when an official at the Thai Board of Investment wanted a copy of a report he had written on the Thai auto industry. When he went to deliver it, he met a director of Southeast Asia Management Investment Corp., an Anglo-Thai joint venture that was advising the government on how to encourage direct foreign investment. The director gave him a job. While working there, Dunne established a relationship with what turned out to be his first two real clients: Dana Corp. and Chrysler. With this meager customer base, Dunne paid a local law firm about $3,500 to do the paperwork, and ARA was officially born on Mar. 3, 1993.

In its first year, ARA did "nothing spectacular," in Dunne's words. He spent every day trying to get Chrysler into the Thai market. That paid off in '94, when the government reclassified Jeeps, allowing the price to fall $6,000 to $50,000. Things also picked up in '94. In July of that year, ARA did strategic research for AC Rochester, a Flint (Mich.) company now known as Delphi Energy & Engine Management Systems, identifying Malaysia as the best place for the company to focus its first Asian efforts. Soon it had a valuable contract to supply engine management systems to the national carmaker Proton for its Saga sedan.

That year, Dunne also helped Dana become the first U.S. auto industry manufacturer with a Vietnam presence. He suggested the company take the plunge, then he helped it establish a relationship with the Vietnamese government.

Dunne has the advantage of being in a service industry, not in manufacturing. That serves him well in Asia, where the transition to an industrial economy is well under way, but the need for healthy services sector is just beginning. Having gotten in on the ground floor, it may be quite a while before the Dunnes go home.

By Edith Updike in Bangkok

RIGHT PLACE, RIGHT TIME: Dunne had the good fortune to start building his business just as Detroit was beginning to get serious about dealing with Asia

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A CRASH COURSE IN THE RISKS OF GLOBAL EXPANSION

Despite the peso crisis, some franchisors are thriving

CULTURE CLASH: *Gymboree's no-grandparents rule at parties didn't play in Mexico*

When Miguel Angel Sánchez Valdez and a partner bought a Dryclean USA Inc. franchise in 1992, they borrowed almost half the $300,000 startup cost. Wary of sudden interest-rate surges in unpredictable Mexico, Sánchez hurried to pay the loan back in a year and a half. "Some months, we preferred to pay the bank rather than pay [franchise] royalties," he says.

Better a few skipped royalty payments than none at all, Dryclean USA and its local licensee, José Shamosh, discovered. Sánchez was out of debt in time to escape the December, 1994, peso devaluation that sent the Mexican economy into a tailspin. Other Dryclean franchisees weren't so lucky. Since the peso crisis, they have been defaulting on both bank debts and royalties. The company and Shamosh have had to cut licensing fees and launch aggressive marketing programs to get some 100 stores back on track. "It has been an enlightening experience," admits Eddie Rodriguez, president of Dryclean USA International. "We learned that even though the economy may be good in a foreign country for a while, it may not last."

Mexico is a crash course in the risks of international expansion. During the early '90s, franchisors flocked in, lured by a growing middle class and new intellectual-property laws. Mexico became the world's eighth-largest franchising market, with 300 franchisors and more than 10,000 outlets.

Even before the peso collapse, though, many franchisors were running into trouble with Mexican franchisees. In the U.S., an ideal buyer is an employee who has risen through the ra But in Mexico, where credit is sca only those with cash need apply— they may not be ideal. Often, only in tors with other businesses or far wealth have the funds to buy franchi and they are loath to put in the l hours required. "Whoever has $100 and wears a Gucci tie is not going work behind the counter," says Ger Fernández del Busto, president of Mexican Franchise Assn. Busto is the license holder for Gymboree, a lingame (Calif.) company that runs dler programs in indoor playground

Subway Partners in Milford, Co granted its first franchise to an inve who "did not put one minute of his into making sandwiches," says A Kremer, Subway's Mexico City de opment agent. Complaints of poor vice eventually shut the store do Now, Subway encourages groups friends to invest together. Subway plans to help finance equipment lea

UNTHINKABLE. Many franchises stum in adapting to Mexican ways and cr friction with local partners. When G boree decided to expand services by troducing birthday parties at its in playgrounds, the U.S.-style rules li ed attendance to children of the s age accompanied only by a parent. in Mexico, it's unthinkable not to in grandparents and cousins to childr birthday parties. Fernández del B gave up offering the parties after C fornia headquarters rejected his pl relax the rigid formula.

Despite such trip-ups, some franch are thriving. Domino's Pizza has grown to 120 stores s opening its first in '89—its fastest pansion anywhere outside the U.S. hold down dollar costs since devalua license holder Alberto Torrado, 30, cut imports from 80% to 20% finding such supplies as cheese cardboard boxes locally. By ya end, Torrado hopes to have 3 stores. That's because Michi based headquarters will fina about 60% of franchisees' $160 investment at U.S. interest r during their first two years.

It will take franchisees wi to roll up their sleeves to co idate Mexico's franchising suc When the home office step with financial support and le the marketing to those who k their customers best, franchi can be unbeatable.

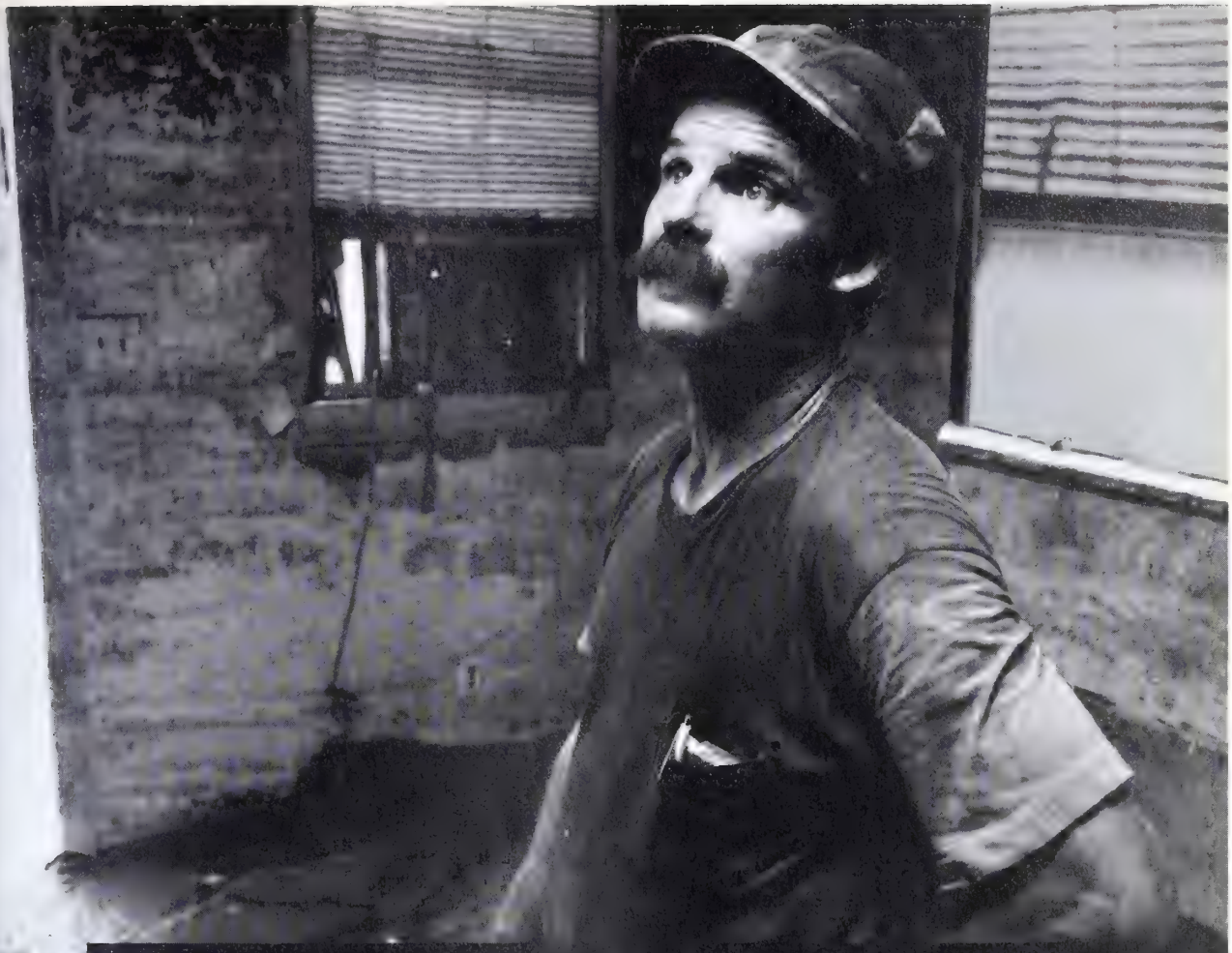
By Elisabeth Ma in Mexico

MEXICO

The U.S. Franchise Leaders in Mexico

FRANCHISOR	TYPE OF BUSINESS	NUMBER OF OUTLETS
McDONALD'S	Fast food	126
DOMINO'S PIZZA	Fast food	120
DRYCLEAN USA	Dry cleaning	100
MAIL BOXES ETC.	Mail boxes, office services	60
SUBWAY	Fast food	46
GYMBOREE	Playgrounds	28

DATA: MEXICAN FRANCHISE ASSN



"My Place Of Business Was Destroyed, But My *Business* Wasn't."

. thought I had planned for
rything." These are the words
a flood victim—they could be
urs. Thousands of people every
ır find out that it CAN
ppen.

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id you know you don't
ve to be close to water to
come a flood victim? Do you
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Economics

SMOOTH MOVES: *To avoid hiking th cost of lift tickets, Loveland Ski Are raised prices on lessons and hot do*

LIVING WELL WITH LOW INFLATION

Companies find creative ways to beat price constraints

PRICES

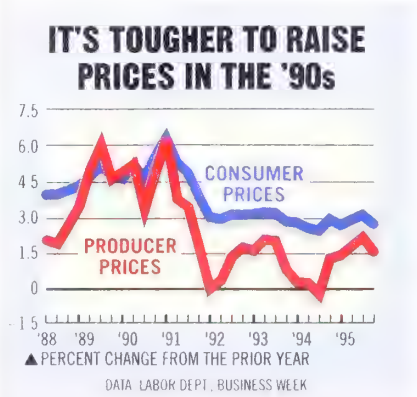
Be careful what you wish for. It wasn't so long ago that businesspeople railed against soaring materials prices and hefty pay hikes sought by workers. But now that low inflation seems here to stay, many companies, especially small businesses, are finding that this economic landscape has its drawbacks, too.

No longer can businesses count on price markups to fatten their bottom lines. Low inflation, says Edward Yardeni, chief economist at C. J. Lawrence Inc., is hard on profit growth "because prices contribute nothing." For example, in 1995, it looks as if consumer inflation will finish below 3% for the fourth year in a row. For wholesalers, the news on pricing power is even worse: Producer prices of finished goods are likely to edge up just 2% (chart). Businesses looking for an excuse to raise prices in 1996 are likely to be disappointed: Inflation may actually be lower than it was this year.

Of course, much depends on which industry a business is in. Prices of certain commodities, such as rubber, and industrial supplies, such as paperboard and plastics, have risen by 10% or more over the past year. Meanwhile, the prices of apparel, fabrics, and some industrial machinery are flat or down from a year ago. Why the divergence? Different customer groups. Rising global demand, especially from Southeast Asia, has made commodity price hikes easier to pass along. But businesses selling mainly to the U. S. market face fierce price resistance, particularly among consumers.

Yet even in this brutal climate, many small companies are making price hikes stick. Some companies have entered niche markets th offer stronger pr ing power. Othe have discovered th their customers will tolerate increas on peripheral items as long as the c of the main product holds steady. A ing value while upping the price is other tactic. And, as always, compan are keeping an eagle eye on costs.

EXPORT OUTLET. Niche markets ha worked extremely well for Waterl Coating Corp., a Cleveland-based mal of clear and pigmented coatings us on wood, vinyl, and other surfaces. I fore the 1990s, Waterlox sold 30% its coatings to auto manufacture which used them on interiors. In t early 1980s, Waterlox was able to p along the increased cost of raw mat als. But by the end of the decade, t auto companies were balking, and W terlox began searching for new m kets. It found one in oiled retro-l wood floors, which were becoming creasingly popular with residential- a commercial-property owners, and be selling its clear finishes aggressively building and hardware stores. That abled Waterlox to raise its prices 10% to 12% in 1992, when the cost tung oil was last increased—and h them steady since then. Now, 70% its sales come from clear finishes, w sales to auto makers have slipped



Vice-President John W. Hawkins Waterlox also began selling its ucts in Europe. That's not unusual: orts have accounted for 39% of the omy's growth over the past year.

ometimes, customers will tolerate tive price hikes while rejecting oth- Raising the price of a ski-lift ticket, nstance, is considered sacrilegious ng downhill racers. So at Loveland Area, an hour outside of Denver, cket prices haven't gone up in three s. Instead, Marketing Director Scott Fortner says Loveland has raised es of less-visible items—the ski ol and hot dogs at the restaurant. want to give people value, but we need to make a profit," he says.

IDY TOGS. Carrying specialty items nother way businesses can slip in a hike. In Hayward, Calif., the Soc- World retail chain faces attack from unters such as Big 5 and Sport- . Soccer World Founder Christo- Goumas, a 32-year-old former high ol soccer player, has kept his stores mail-order unit competitive by offer- knowledgeable sales help and carry- higher-priced merchandise, such as -to-find clothing from Europe. These dy items appeal to image-conscious agers who are willing to accept hikes. "Everybody would like to something for less," Goumas says, I'm not running into price resis- e." The price of a pair of Adidas' a Mundials, for example, rose by to $89.95, last year. Yet Soccer ld sold 2,500 pairs of the soccer s, more than in previous years. rall, Goumas says sales have in- sed 10% annually in the 1990s.

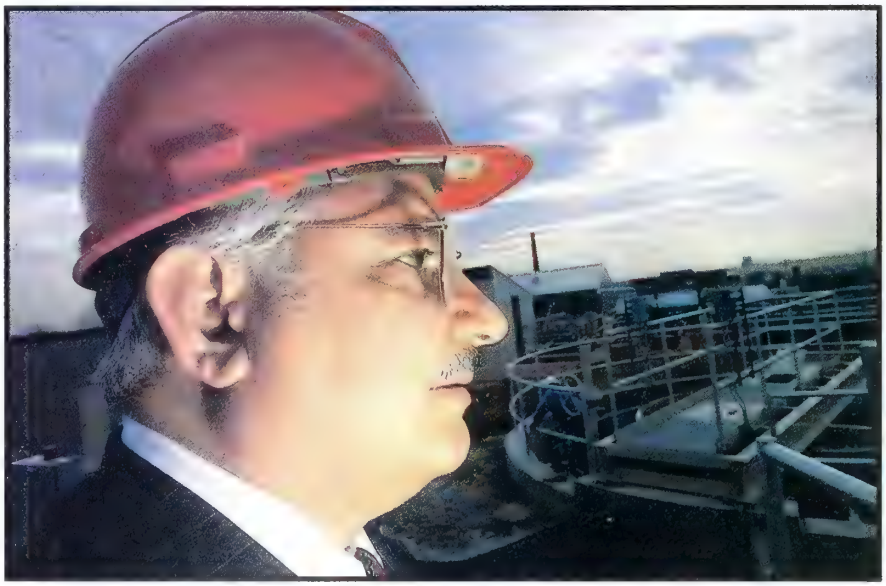
utside the world of $90 soccer cleats, ever, price resistance is still the n. So executives must hold down s to keep their companies viable. y Friedeman, president of Plabell ber Products Corp., is a firm believ- the Darwinian Manufacturing The- "The company that adapts the best, ives." So the Toledo (Ohio) rubber- s maker worked with its utility com- to cut its energy usage. Plabell cut health-care costs while main- ng coverage. Those savings have t recent increases in the cost of raw ber. If rubber prices rise again this , though, employee-owned Plabell have to pass along the hikes.

he success that Plabell and other ld-be price-raisers have in 1996 will end on finding some cracks in the wall of price resistance. A low infla- cycle can be vicious for profit-hungry panies, but evidence suggests that deman's theory is right: Many small nesses are adapting—and surviving.

y Kathleen Madigan in New York, bureau reports

GOOD GOVERNMENT, OR '60s RELIC?

The SBA is struggling to fix its minority-business program



OVERDEPENDENT: *Gomez says his company leaned too hard on 8(a)*

For Joseph A. Gomez, the Small Business Administration's 8(a) program was a mixed blessing. The program, which steers government procurement contracts to small and disadvantaged businesses, helped the 53-year-old businessman land a much-needed job with the Federal Aviation Administration in 1985. His electrical contracting business was struggling to complete a private job in the wake of a joint-venture partner's bankruptcy, leaving virtually no time to develop new business. Gratefully, Gomez nabbed the $200,000 FAA contract to install an approach lighting system at a New Hampshire airport. The deal helped his business ride out that lean period.

MINORITY CONTRACTING

But Gomez' 8(a) work also worked against him. He says his company became too reliant on the SBA contracts, losing some of its edge. That made it tougher to boost non-8(a) business as he neared the end of his nearly nine years in the program. Gomez has built the business back up to $2 million a year in sales after business slumped when he left 8(a) in 1990. But at the time, he says, "I frankly didn't know if I could find enough work to survive."

Gomez' experiences—both good and bad—highlight the complexity of the debate over 8(a). Critics charge that the scandal-ridden program has failed the minority community, fostering dependence and often benefiting only a few businesses run by wealthy owners. And a June Supreme Court decision limiting the scope of federal affirmative-action programs has put 8(a) clearly in the sights of Republicans such as House Small Business Committee Chairwoman Jan Meyers (R-Kan.). While the Clinton Administration argues that 8(a) needs to be fixed, not killed, Meyers will be pushing for its elimination next spring. "I probably would have supported this 20 years ago," she says. "But I don't think it is necessary now."

Few can dispute that 8(a) has been invaluable for many minority-owned small businesses, which at last count made up 9% of all small businesses. The program, created in 1969, has awarded contracts worth an estimated $48 billion to small companies that are operated and more

than half-owned by minority entrepreneurs. Such deals have been critical for businesspeople such as Santos F. Garza, whose security systems company, Counter Technology Inc., has been in the program for five years. Garza, the child of Hispanic migrant workers, says the program gave her a track record in large systems jobs. That has helped her win a number of commercial contracts, including a deal signed last year to provide security systems for the new Austin airport. Explains Garza: "Without 8(a), we wouldn't have been able to bid and win big commercial contracts. That [Austin] contract put us on the map."

Still, weak oversight made abuse of the program all too common. One example: Because the SBA's formula for determining whether a company qualifies for the program does not include the owner's equity in the business or his or her home, some 8(a) firms are run by millionaires.

STRUCTURAL FLAWS. Plenty of companies took advantage of such lax regulation. A General Accounting Office investigation earlier this year determined that an 8(a) participant, I-NET Inc., excluded some revenues from financial statements, allowing it to remain eligible for the program in 1991 and 1992. But SBA allowed the company to remain in 8(a) for 18 months after learning of the problem from its own auditors. In that time, I-NET landed over $62 million in additional 8(a) contracts. I-NET officials say their accounting methodology complied with applicable accounting principles and was fully disclosed to the SBA.

There also have been structural flaws in the program. At the end of fiscal 1994, the top 50 of the 5,100 certified 8(a) companies won 25% of the $4.4 billion in contracts awarded. While that level of concentration is not uncommon in government contracting, it limits the number of firms that gain from a program meant to spur business among minority entrepreneurs outside the mainstream.

Part of the problem is the tendency to steer labor-intensive contracts to 8(a) outfits. Government agencies often target construction, building management, and security guard contracts for 8(a) companies. As a result, high-tech companies contend that contracting officers are less likely to tap them for 8(a) work. And some participants, such as Willie E. Davis, who runs a systems integration company in Union, N.J., find the local SBA staff of little help. "They wouldn't know a business opportunity if it jumped up and bit them in the face," insists Davis, who has been in 8(a) more than a year without landing a contract.

The SBA is trying to clean up the program. It has sought since 1993 to push out companies that have grown too large or too rich. In the past 18 months, more than 500 companies have been terminated from the program. The SBA also is examining its calculations of a business owner's net worth to determine if it should bar wealthier individuals from 8(a). And a new computer system finally rolled out this summer will help monitor whether businesses in the program still meet the guidelines for assista

Meanwhile, the SBA is stepping u efforts to give 8(a) participants man rial assistance. The SBA sets targ for companies to develop non-8(a) b ness, but last year, 63% of those r the end of their stint in the prog did not hit those goals. And the plans to address concerns of par pants such as Gomez who want m 8(a) contracts awarded competitive which could help more companies vive after leaving. Currently, most contracts are negotiated and do no volve price competition.

POOR SUBSTITUTE? Still, these m needed reforms may come too lat bill has been introduced in the H that would eliminate race as a fa that can be considered in grantin government contract. Senator Christopher Bond (R-Mo.) is draf legislation that could place 8(a) with a gov ment contracting aimed at small busine located in distressed u or rural communities–r gardless of race.

That, many min small-business owners gue, would be a poor stitute. But if the Cli Administration is unab fight back the attack 8(a), it may be the they can hope for.

By Amy B in Washin

THANKS, SBA: *Security specialist Garza says 8(a) helped "put us on the ma*

FIXING SBA'S 8(a) PROGRAM

The Clinton prescription for the highly criticized program:

THE PROBLEM	THE SOLUTION
• Businesses often stay in the program long after they've grown too large or too rich	• SBA has increased scrutiny of program participants, cutting over 500 since 1993
• Most of the 8(a) contracts go to a small number of firms in the program	• SBA is urging agencies to target firms that have never won an 8(a) contract
• Many 8(a) firms become addicted to government contracts and later fail when cut out of the program	• SBA is developing a new computer system to track the development of 8(a) firms

DATA: GENERAL ACCOUNTING OFFICE, SMALL BUSINESS ADMINISTRATION

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Roundtable

BETTER BACKUP FOR WOMEN IN BUSINESS

A talk with the chief of the National Economic Council

The problems of female entrepreneurs are about to get new visibility in Washington. President Clinton guaranteed it when he put the chair of his National Economic Council, Laura D'Andrea Tyson, in charge of a new committee addressing issues crucial to women business owners. The Interagency Committee on Women's Business Enterprise will release its first report in December. Tyson discussed the panel's work with Assistant Managing Editor Sarah Bartlett and Washington Correspondent Mike McNamee.

Q: *What have you learned about women-owned businesses through your work with this committee?*

A: The President likes to point out that we've had a record number of small-business creations in the past two years. Women-owned businesses are becoming more important, in terms of numbers, employment, and sales. And in recent years, they've increased fastest in nontraditional areas, such as construction, manufacturing, and transportation.

From the conversations I've had, I've been struck by the fact that businesses owned by women tend to be more sensitive to issues such as flexible time, job sharing, and reimbursing their workers for training. Studies have found women-owned businesses to be more worker-friendly in those ways.

Q: *What are you trying to accomplish with the Interagency Committee and its private-sector partner, the National Women's Business Council?*

A: We're trying to ask what public policy could do in four basic areas: access to capital, access to technical assistance and training, and ways to expand opportunities for women-owned businesses to compete for federal contracts. And we think it's important to encourage research and data on these businesses.

The private-sector group—they're there to help us understand the barriers that are holding back women entrepreneurs. Then maybe the public sector can do something. Maybe the private sector can do something as well.

ISSUES & TRENDS

Q: *So what is the federal government doing to help women-owned businesses?*

> "Women's share of SBA-guaranteed loans rose from 11% in '93 to 19% in '95"
>
> LAURA D'ANDREA TYSON

A: I had never thought of starting a small business, so I hadn't realized the very large fraction of women who use their own personal finances to start a business. There are similar pressures for men, too, but the problems seem compounded for women. So 42% of women who own small businesses ha used personal credit cards for sho term financing; 30% finance their bu nesses out of their own savings.

In the past three years, the [Sm Business Administration] has guara teed $3.5 billion in loans to wom Women's share of SBA-guaranteed lo rose from 11% in [fiscal] 1993 to 19% 1995. We've combined that with a p qualification program for women. T SBA works with the business owner help her ascertain whether she qualif for a guaranteed loan before she g to the bank.

Then there's the micro-loan p gram—it's assistance for would-be trepreneurs, both m and women. About 4 of its loans have gone to women.

We're working hard to improve a extend the SBA Women's Demonst tion Project. This is really counseli and training—the things you need do to put together a bu ness plan, to put togethe financial package, to eva ate and develop a mark When I heard about it thought of calling my frie who have talked for ye about needing somethi like this.

The SBA also has Women's Network for I trepreneurial Training, li ing up successful women trepreneurs with aspir women entrepreneurs. It very useful way to get formation spread beca the successful ones ha done it before.

Q: *In 1994, Congress se goal of placing 5% of fede procurement with wom owned businesses. Is that ing met?*

A: The goal is just tak effect, but several agencies are m ing to meet it. In 1994, women-ow companies got 2.8% of the federal-p curement dollar—a 27% increase fr 1992.

Sheila Widnall, the Air Force Se tary, has a tremendous outreach p gram. She has amazing stories ab women in traditional businesses have converted to military procurem The Air Force would say they re nize the increase in women-owned b nesses. They want to find the best tractors, so they have to extend bey their normal channels.

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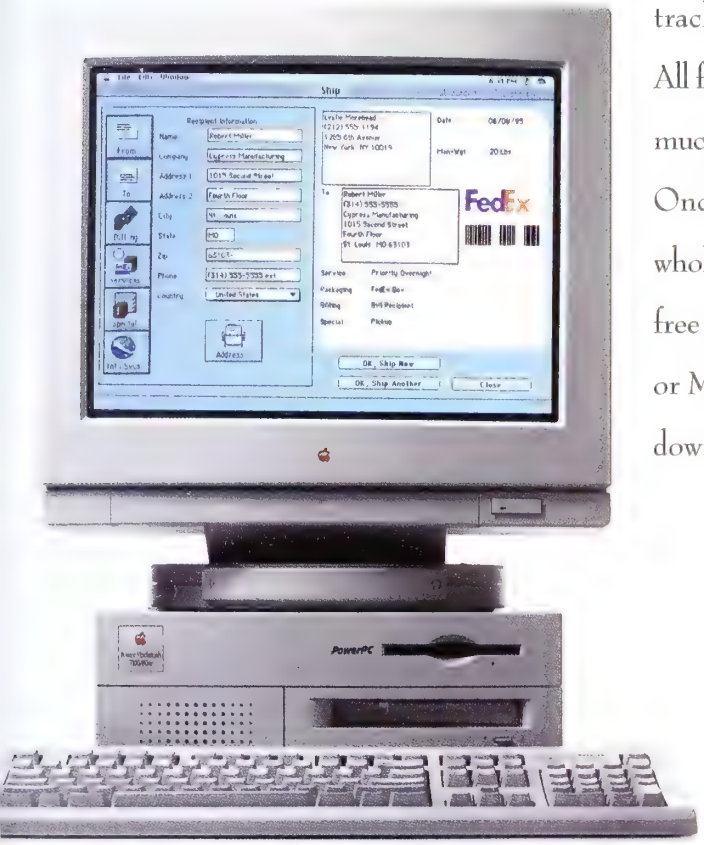

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YES, YOU SHOULD HAVE A BOARD—THE RIGHT ONE

Directors can lend clout and stimulate strategic thinking

To many small businesses, a board of directors is one of those trappings of Corporate America that seems to bring little or nothing to the party. Stocked with a spouse, a cousin, and a lawyer or accountant, it convenes annually, at best, to comply with state laws. Worse, it costs money.

By taking such a lackadaisical approach, you may be missing an opportunity. A formal, independent board of directors can be a valuable resource to help with long-range planning, strategic issues, and personnel matters. Outside directors bring a fresh perspective and new ideas. For fast-growing companies, they provide a crucial check on hastily executed management decisions. For family businesses, they can help sort out complex relationships and hold management accountable to family members who, though owners, aren't active in the business.

"Most important, it's a great stimulator of strategic thinking," says John L. Ward, a professor at Loyola University Chicago, whose research shows that companies with independent boards are more profitable, grow faster, and have better succession plans. "It's also a group of supporters and empathetic listeners who are enthusiastic and care for your success."

CONTROL ISSUES. A formal board stocked with outside directors also can give you clout when you're seeking financing, says Edmund B. Galvin, a partner at Coopers & Lybrand's Chicago office. "Lenders, venture capitalists, and, ultimately, shareholders are increasingly looking at the board as a way to assess management," he says.

While more private companies are setting up independent boards, only about 15% of closely held businesses currently have one, says Ward. Some owners don't realize it is feasible or that anyone qualified would be interested in serving. But any company with 50 or more employees should consider setting one up, says Ivan Lansberg, a management consultant in New Haven.

CORPORATE GOVERNANCE

Many entrepreneurs fear that an independent board would rob them of control and the freedom to make quick, creative decisions. But in practice, directors have little control. Since they serve at the pleasure of shareholders, directors can easily be voted off the board. Moreover, boards are generally—and more appropriately—used to advise on long-term strategic matters, where battles over control are less likely, says Lansberg.

For a company with fewer than 100 employees, it makes sense to have three outside directors, one inside director, and yourself, says Michael Janicki, who directs BDO Seidman's family-business consulting practice. You can retain a director for $2,500 to $10,000 a year, although fees depend on the size of the company and the frequency and length of the meetings. To keep costs down, hold quarterly meetings that last three to four hours. Also, try to find directors from the local business or academic community, to save on travel expenses. Directors' and officers' liability insurance is often a requisite for recruitment and may cost as much as $25,000 a year for a private company, estimates Janicki.

The best directors are often entrepreneurs from industries other than your own who may have overcome similar hurdles. Seek directors who can add skills that your management team may lack. Would it help to have greater expertise in marketing, finance, or operations? Look for people with some board experience, preferably with a for-profit.

Your professional advisers, attorney, accountant, or local executive search firms can help you identify candidates. Arrange an initial meeting to discuss your plans and to make sure you're compatible. Once you've selected board members, provide them with written guidelines so they will understand their responsibilities. Janicki suggests imposing a renewable three-year term limit to provide nonperforming directors with a graceful way to exit the board. Make the most out of your meetings by sending directors a packet of materials ahead of time, including financial updates, company news, and a detailed agenda.

OBJECTIVE FEEDBACK. If you are comfortable having outsiders on your board, you can still get the benefits of outside advice by setting up an advisory council. These panels have many of the benefits of formal boards but don't offer directors as much prestige and won't carry as much clout with sources of financing. The fees paid to advisers would be comparable to directors' fees, but costly directors' and officers' insurance wouldn't be necessary.

If you do take the time and expense to set up a formal board, you need to be committed to consulting it on important decisions and taking directors' advice. "That's one of the most difficult aspects," says Janicki. Hearing objective feedback on your business decisions may take some getting used to, but it will serve you much better than the rubber stamp of a board of family and friends.

By Amey Stone in New York

Making a Board Work for You

- Keep it small. Three outsiders, one insider, and yourself makes sense for companies with fewer than 100 employees.
- Plan quarterly meetings that last three to four hours.
- To keep expenses down, pick the best candidates from the local business community. Look for skills your management team lacks.
- Write guidelines so board members understand their responsibilities. Impose renewable three-year term limits.

DATA BUSINESS WEEK

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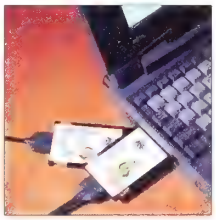

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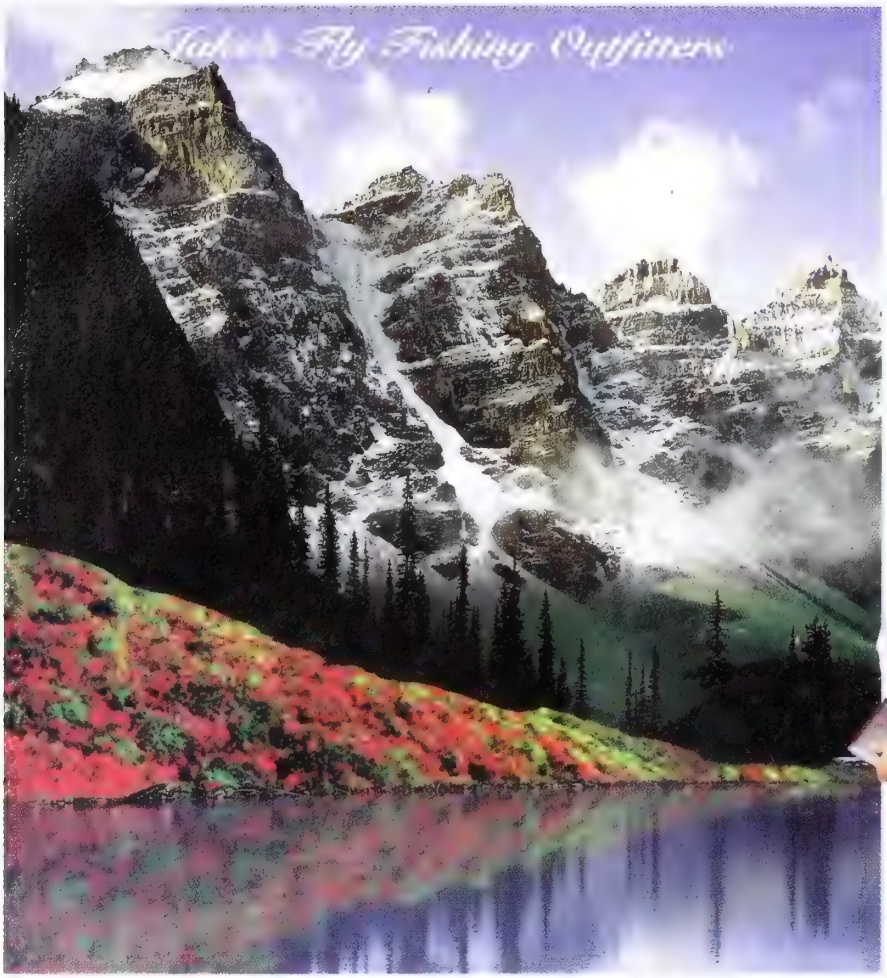

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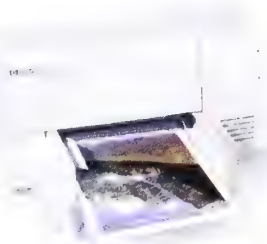

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Wit's End

WHALE BLUBBER

It has been a while since the U.S. had any kind of serious whaling industry—over 80 years, in fact. But that hasn't stopped the Commerce Dept. from having this elaborate whale-measuring guideline on its books. Why would the government care about whale dimensions? Something to do with satisfying the reporting requirements.... Sound familiar?

FROM THE COMMERCE DEPT., NATIONAL MARINE FISHERIES SERVICE:

Part 351—Whaling authority: Article 5, 62 Stat. 1718, sec. 2-14, 64 Stat. 421-425; 16 U.S.C. 916 et seq.

351.63 Measurement of whales

a) Whales must be measured when at rest on deck or platform after the hauling out wire and grasping device have been released, by means of a tape-measure made of a non-stretching material. The zero end of the tape-measure shall be attached to a spike or stable device to be positioned on the deck or platform abreast of one end of the whale. Alternatively, the spike may be stuck into the tail fluke abreast of the apex of the notch. The tape-measure shall be held taut in a straight line parallel to the deck and the whale's body, and other than in exceptional circumstances, along the whale's back, and read abreast of the other end of the whale. The ends of the whale for measurement purposes shall be the tip of the upper jaw, or in sperm whales, the most forward part of the head, and the apex of the notch between the tail flukes.

b) Measurements shall be logged to the nearest foot or 0.1 metres. That is to say, any whale between 75 feet 6 inches and 76 feet 6 inches shall be logged as 76 feet, and any whale between 76 feet 6 inches and 77 feet 6 inches shall be logged as 77 feet. Similarly, any whale between 10.15 metres and 10.25 metres shall be logged as 10.2 metres, and any whale between 10.25 metres and 10.35 metres shall be logged as 10.3 metres. The measurement of any whale which falls on an exact half foot or 0.05 metre shall be logged at the next half foot, or 0.05 metre, e.g. 76 feet 6 inches precisely shall be logged as 77 feet and 10.25 metres precisely shall be logged as 10.3 metres.

GOT A CANDIDATE FOR WIT'S END? Readers should send them to Business Week Enterprise, 1221 Avenue of the Americas, New York, N.Y. 10020, fax (212 512-4721), America Online (readersbw), or Internet (bwreader@mgh.com).

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- ❑ Good
- ❑ Fair
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- ❑ Don't Know

2. Did you find Enterprise: (Check all that apply)

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- ❑ Easy to read
- ❑ Informative
- ❑ Insightful
- ❑ Interesting
- ❑ Pertinent to my business needs
- ❑ Useful
- ❑ Well organized
- ❑ Other_____

3. Next to the editorial subjects listed below, please check those topics which you would like to see more of in Enterprise:

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- ❑ Business equipment
- ❑ Business finance
- ❑ Company profiles
- ❑ Computers and/or Software
- ❑ Economic conditions
- ❑ Government and politics
- ❑ Industry trends
- ❑ International business
- ❑ Legal issues
- ❑ Marketing
- ❑ People profiles
- ❑ Personal finance
- ❑ Regulatory changes
- ❑ Tax issues
- ❑ Women in business

Thanks for your time and thoughts. Your cooperation is very much appreciated. Please fax back this survey to 516-935-4092.

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- ❑ From Office Depot store
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- ❑ Other_____

5a. Would you like to see future issues of Enterprise?

❑ Yes ❑ No

5b. If yes, how many issues per year would you like to see?

❑ 2 ❑ 4 ❑ 6 ❑ 12

5c. Would you pay a modest price for a subscription to Enterprise if it was published as a free-standing magazine dedicated to small business?

❑ Yes ❑ No

6. Please put your age in the space provided:

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7. Are you:

❑ Female ❑ Male

8. What is the highest level of education you have attained?

- ❑ Some High School
- ❑ High School Graduate
- ❑ Some College (no diploma)
- ❑ College Graduate
- ❑ Some Post Graduate
- ❑ Graduate Degree

9. Do you work primarily from your:

- ❑ Home
- ❑ Office

10. If you primarily work in an office, do you also do work for your job at home?

❑ Yes ❑ No

11. If yes, how often do you work at home for your job?

- ❑ Often (several times each wee
- ❑ Frequently (at least once per week)
- ❑ Sometimes (two to four times/month)
- ❑ Occasionally (less than once per month)

12. Approximately how many employees are there in your entire company?

❑ 1	❑ 50-99
❑ 2-4	❑ 100-499
❑ 5-9	❑ 500-999
❑ 10-24	❑ 1,000 or more
❑ 25-49	

13. Please indicate if you have a of the equipment listed belo your home or office?

	Home	(i
Personal Computers (Desktop or Workstation)	❑	❑
Personal Computers (Laptop or Portable)	❑	❑
Modem	❑	❑
CD Rom Drive	❑	❑
Networking Hardware/ Software	❑	❑
Copiers/Duplicators	❑	❑
Facsimile/Fax	❑	❑
Typewriters	❑	❑
Cellular phones	❑	❑
Pagers/beepers	❑	❑
E-mail system	❑	❑

14. Where do you shop for your office supplies?

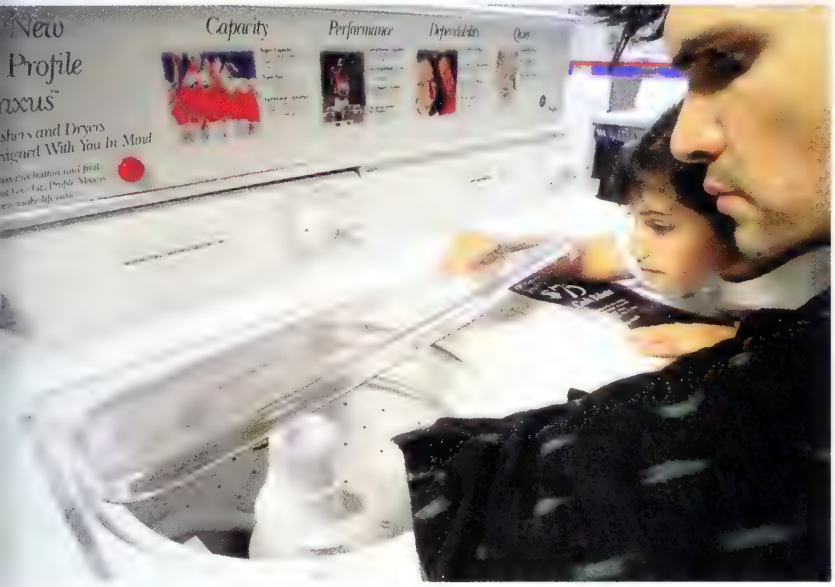
- ❑ Office Depot
- ❑ Office Max
- ❑ Staples
- ❑ WalMart
- ❑ Wholesale/Warehouse Club
- ❑ Local Stationery Store
- ❑ Other_____

11/20/95

PLIANCES

E HAS A LEAN, MEAN ASHING MACHINE

ders for the Maxus are pouring in, but can demand be met?



S VIBRATION: *GE's Maxus boasts a big tub, fewer parts, and reduced noise*

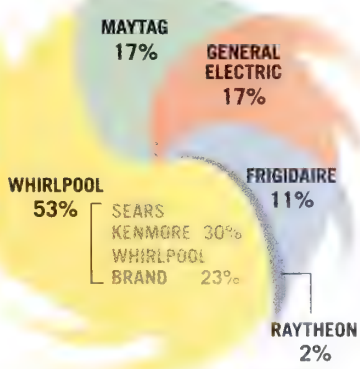
is GE's first fundamentally new vashing machine in 42 years, and it's beaut. The Maxus, $100 million in making, boasts a larger tub, 40% er parts, and a suspension that cuts n on noise and vibration, keeping ls balanced. This is the sort of stuff t turns pros' heads: "If someone es in and just wants a washer, all 20 ny salesmen will walk them over to GE," says Chuck Oswald, president Appliance Center in mee, Ohio.

'he Maxus line, ch sells for $400 to), is General Elec- Co.'s attempt to ape laundry-room liocrity. For years, washers have been k a distant second hird behind those n Whirlpool Corp. rt). GE ran 40 mar- research studies collected recom- ndations from 200 rice technicians to re out what it was ng wrong. This year, it will spend an estimated $10 million on clever feature-oriented advertising and marketing for its new washer and a redesigned dryer—the biggest launch ever for GE Appliances.

DEEP POCKETS. The splash is paying off, with orders from retailers far exceeding GE's expectations. "For the first time in a long time, GE doesn't have to take a backseat to anybody in the laundry business," says J. Con Maloney, chairman of Cowboy Maloney's Electric City, an 11-store chain based in Jackson, Miss. Deep-pocketed GE, the leader in refrigerators, dishwashers, and electric ranges, may finally be set to pick up market share in washers.

But there's a problem: GE can't get enough machines out the factory door. Maxus floor samples were delayed by a month, and GE acknowledges that it fell three weeks behind its production

IN A WHIRL MARKET SHARE OF U.S. WASHING MACHINE SHIPMENTS



DATA: *APPLIANCE*; SEARS, ROEBUCK & CO.; BUSINESS WEEK

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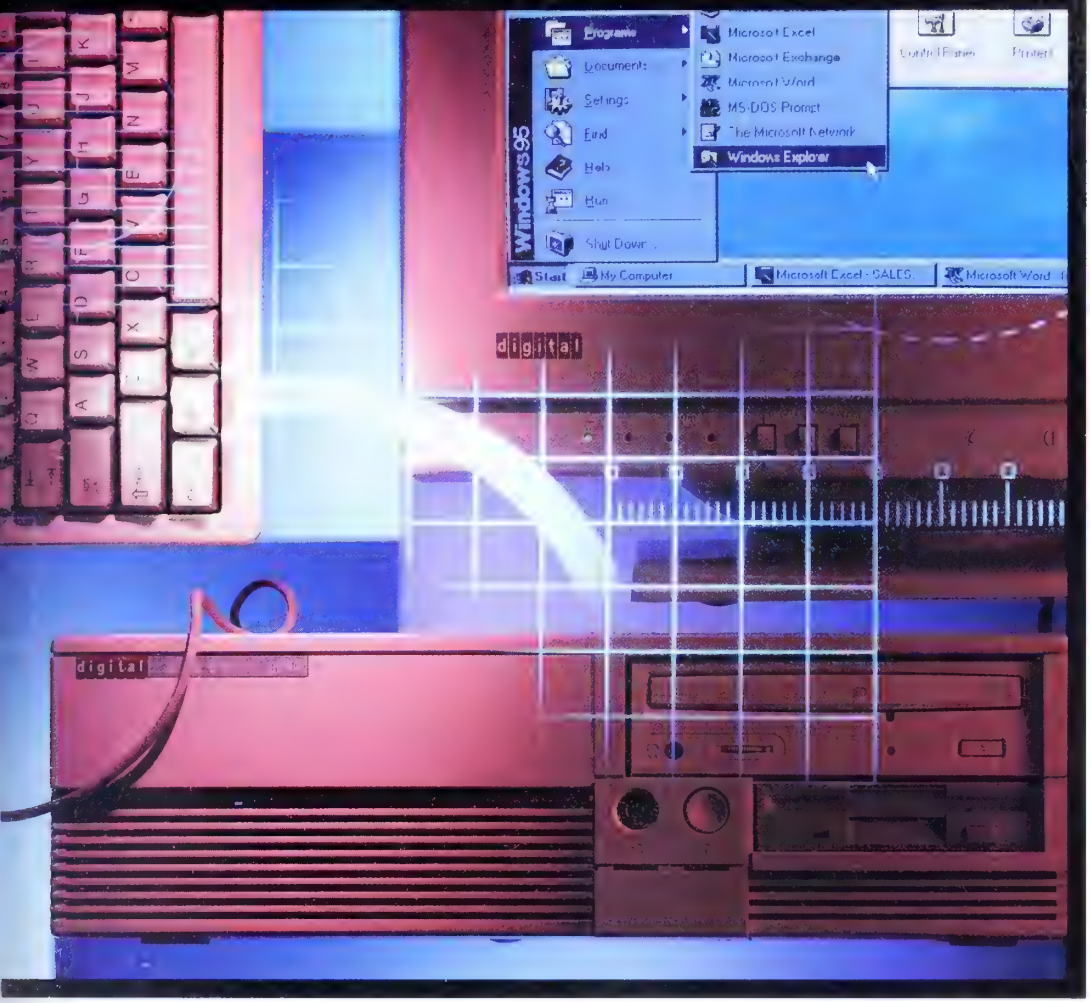

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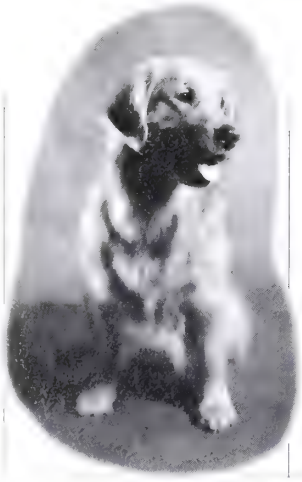

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To 12 million adults this is an ad about a dog. Actually, it's an ad about literacy.

schedule last summer. The biggest d lays came from component supplie though GE had to shut down its ov lines to fix a noise problem.

Tom Tiller, GE Appliances' manufa turing and purchasing chief, says mo of its production problems were simp ramp-up issues. Now, GE is making mo of the new models than it did of t old. "The baby is out," he says. "We still in a little bit of pain from the birt ing process, but we're getting there Even so, say parts suppliers, GE's tw Louisville assembly lines are produci just 30,000 washers a week, below t 32,500 it had expected by now. Retaile figure it will be January before catches up to demand. "It's a probler says Jim Copitzky, general manager the Home Appliances Div. of Sea Roebuck & Co.

ENVIRONMENT. GE is honoring its supp agreements with Sears, and Copitz and other buyers expect the shortage ease. In fact, a third production li will open in the first half of next ye says Norman T. Mitchell, who heads t union local at Louisville. In the mea time, though, GE risks losing its br marketing advantage. While rivals sr that Maxus is simply catching up what they already sell, they're pushi ahead with their own new produc Whirlpool is working on a secret tec nology it claims will provide much hig er energy efficiency, among other thin Maytag Corp. and Frigidaire Co., t are working on more efficient washe

One crucial factor has turned in G favor. Last spring, it appeared th stringent new environmental standar based on a more efficient technolo widely used in Europe, might be i plemented in the U.S. by 2000. Su regulations, which Whirlpool had vored because of its investment in t technology, could have made the Ma obsolete. But GE, with others, convinc Congress to propose a one-year mo torium on such standards.

Now, GE's marketers must pick where the lobbyists left off. To dou its share of the laundry business, outsiders suggest it hopes to do, must break into Whirlpool's monopoly supplier of Sears' Kenmore brand wa ers, which account for close to 30% the market. So far, Copitzky says, hasn't made a substantive proposal.

But most important, GE has to ov come its supply problems. Retailers n love the new machine, but they ca sell what they don't have. Give consu ers a few more Maxuses, and they n be swayed, too.

By Zachary Schiller in Clevela

LG Electronics

WHEN HE STARTS TALKING,
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ENTREPRENEURS

EYEGLASSES FOR THE MASSES

Here come $20 specs, thanks to an innovative optometris

Robert J. Morrison was touring the Mideast with his family in 1985 when inspiration struck. At a bustling bazaar, the Harrisburg (Pa.) optometrist saw a rugmaker arguing with his children. The kids wanted their father to retire, an interpreter explained, because he was making so many mistakes. Morrison asked the man his age. Only 42. As the artisan turned back to his weaving, arms stretched far in front of him, Morrison realized the problem: He needed glasses.

There must be millions of people in the world who need eye care but can't get it, Morrison recalls thinking. "I said to my son, Jimmy, 'That's a problem we ought to be able to solve.'"

STAR PATIENTS. Now, Morrison thinks he has a solution. With his son, he has created Instant Eyeglasses—prescription specs that can be assembled in minutes and sold for about $20 a pair. Backed by venture funds, including the Rockefeller family's Odyssey Fund, his Morrison International Inc., based in Sarasota, Fla., is selling the glasses for profit and for charity, in the U. S. and overseas. A public offering may come next year. If Morrison succeeds, Instant Eyeglasses could hit the mainstream of the optical business, attracting customers who want spare pairs but balk at paying the average retail $135 cost. It could also help millions of needy people see.

Morrison is no man of the masses, though. A multimillionaire thanks to pioneering work in contact lenses, counts as patients Bill Cosby, Barb Walters, and Kathie Lee Gifford. even these stars must wait for appo ments as Morrison jaunts abroad: is the eye doctor to 14 royal houses

Morrison, now 70, hit the royal cir

BOB MORRISON'S VISION THING

1948 Graduates Pennsylvania College of Optometr

1963 Helps Czech scientists develop first soft contact lens. With two partners, patents the lens and becomes sole U.S. producer of soft lenses.

1966 In exchange for royalties, sells soft-lens rights to partners, who later sell to Bausch & Lomb. Develops another soft lens and becomes chairman of manufacturer Union Optics.

1983 After Union Optics is sold to Coopervision Morrison exits lensmaking to practice, lecture, and do research.

1991 Founds Morrison International to make an market low-cost glasses and lease mobile eye clinics to serve the poor.

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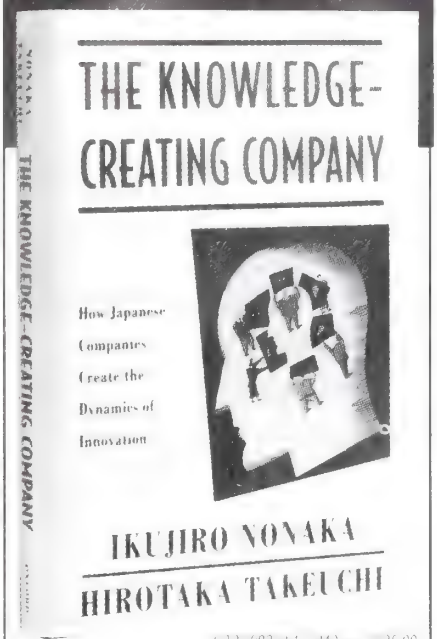

Turning conventional wisdom on its head, these distinguished business experts show how Japanese firms do not just imitate and improve existing products, but innovate and create new knowledge to forge their competitive advantage.

Using case studies drawn from Honda, Canon, Matsushita, NEC, 3M, GE, and the U.S. Marines, Nonaka and Takeuchi demonstrate how to translate "tacit knowledge" (experience) into "explicit knowledge" (manuals and procedures) to produce new processes, products, and services. A powerfully effective blend of eastern and western approaches to innovation—not to be missed.

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in the 1960s, when he was recommended to Belgium's King Baudouin, who had tried contacts repeatedly, with dismal results. After he successfully fitted the monarch, Morrison recalls: "I went back to my hotel in Brussels and found a call from Queen Juliana [of the Netherlands] waiting. It was like a fairy tale." In time, he also treated Princess Grace of Monaco and the Shah of Iran.

The rewards have been sweet. Morrison tools around Harrisburg in a 1961 Rolls Royce Silver Cloud that Juliana gave him after he fitted her nearly blind daughter, Princess Maria Christina, with lenses that greatly improved her vision. Juliana's husband, Prince Bernhard, knighted him. Morrison and his wife, Ruth, have entertained both Princess Maria Christina and Prince Albert of Monaco at their suburban Harrisburg home.

> A boyhood chum says Morrison "hasn't changed a bit," even though his patient list these days includes Bill Cosby and 14 royal houses

But the guest list always includes local friends. Morrison "hasn't changed a bit," says boyhood chum Charlie Grubmeyer. He still tends to the eyes of Harrisburgers, for $50 an exam. And he has set up two foundations to provide lenses and glasses to the poor.

All the while, Morrison has created and produced contact lenses in a basement lab. In 1963, he helped fashion a material into the first soft lenses, then patented them in partnership with two lawyers. "He is one of the most original and creative scientists" in the field, says George W. Blankenship, chairman of ophthalmology at Pennsylvania State University. "He dramatically refined contact lenses from an experimental concept into a successful product." Briefly, in the 1960s, Morrison's lab made every soft lens sold in the U.S. But after a quarrel, he sold out to his partners in exchange for royalties. They later sold the rights to Bausch & Lomb Inc.

FLOPS, TOO. Not all his inventions did so well. A device for measuring corneal scars to track the course of disease was ignored. Still, Morrison, who uses self-hypnosis to cut his sleep time, prides himself on continual innovation. "I was brought up to believe you shouldn't be afraid to do anything novel," he says.

So, at an age when he could be indulging his passion for tennis or building his collection of exotic-looking hotel keys, Morrison is again breaking ground in eye care. To keep prices low, Mo son International has reinvented way glasses are made. Instead of c tom-grinding lenses for different fran it uses premolded lenses that fit i frames that can be snapped toget and adjusted to fit any face. By rotat the lenses to any of 180 positions in frame, 26,000 prescriptions can be fil using a stock of 152 lenses. (The price: $39.95—for bifocal sunglasses w antiscratch coating.) The line sells the U.S. by mail order, and a chain kiosks is in the wor The first opened Florida on Oct. 1.

"Doggone, he's o something," says De Butler, founder Lenscrafters, the wor largest optical retai Butler, who sold Le crafters in 1988 launch Europe's Vis Express, is on board of a new co pany, Optical C (Bermuda) Ltd., that cently inked a deal distribute Instant E glasses in the forn Soviet Union, Easte Europe, India, and P istan. "The need enormous," says Optical Care Chairm Rupert Galliers-Pratt, noting that 4 of Russian adults who need glasses d have them. In nations with few eye d tors, the company will put vision-test gear in stores. Galliers-Pratt, who le successful Russian telecom startup, pects sales in former East bloc mark to hit $55 million a year in five year

Meanwhile, bringing affordable e wear to the poor remains a priority Morrison. He and son Jim, 37, Morris International's president, have designe mobile clinic fitted with equipment measure a person's vision and ma glasses in minutes. One lab-on-whe supported by a $500,000 grant from H shey Foods Corp., roamed the E Coast for 18 months, providing exa and glasses free to 17,000 people. Mo son International currently rents mo clinics to charities in Atlanta and Tam and is negotiating similar deals with f eign sponsors. The company provi glasses at cost ($10 to $12) to the ch ties, which pass on the nominal fee. " payback time," says one associate ab Morrison's drive to help the poor even he pursues his newest venture. "H had a charmed life. He wants to h people by enabling them to see."

By Amy Borrus in Harrisburg,

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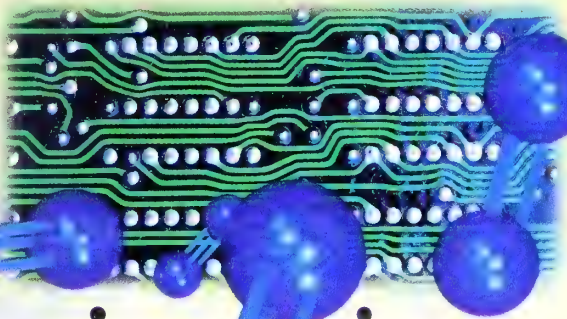

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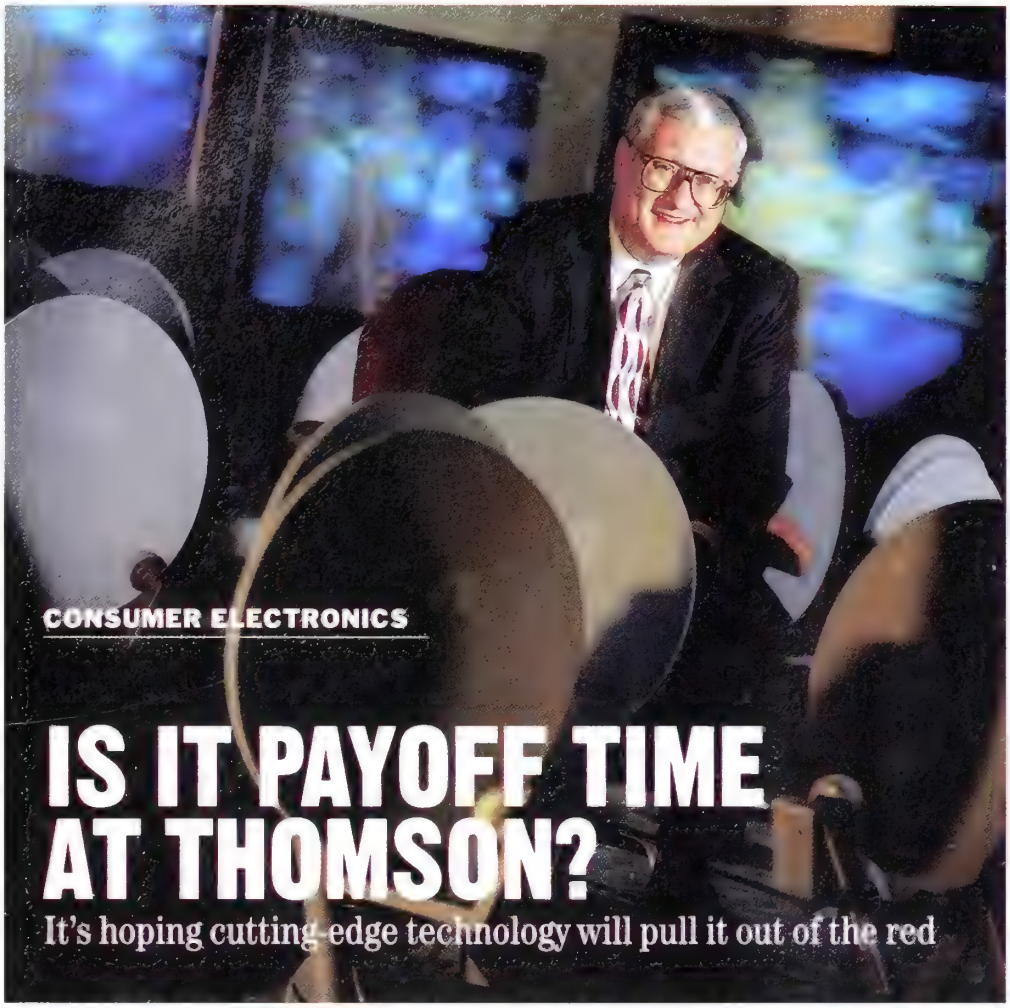

CONSUMER ELECTRONICS

IS IT PAYOFF TIME AT THOMSON?

It's hoping cutting-edge technology will pull it out of the red

Alain Prestat disdains the usual perks of his CEO post. Lunches at swank Parisian restaurants? A waste of time, sniffs the trim, athletic, 44-year-old head of French consumer electronics powerhouse Thomson Multimedia. First-class travel? Only for softies. And while most CEOs delegate inspections of far-flung factories, Prestat visited all 39 Thomson sites in 16 countries within a year of taking over in 1992. "I never stop," he says. "I fly to Osaka like getting on the Metro."

Prestat says his no-frills regime "broke all the taboos" at state-owned Thomson, which was losing money and market share when he arrived in 1992. Since then, his flagship unit—Thomson Consumer Electronics Inc. in the U.S.—has been breaking its sales records. More than one million American TV viewers are now capturing dazzling digital images from satellites using the company's RCA-and GE-brand antennas and set-top boxes. Thomson is pioneering new product niches, from so-called "wireless cable" broadcasting to digital video disks. And it has just unveiled a futuristic vision in which televisions double as gateways to the world of digital information. "Before, we were a consumer electronics company like all the others," crows Prestat. "Now Thomson is a trendsetter, not a follower."

Yet ironically, the mood at Thomson Consumer Electronics' spacious new headquarters outside Indianapolis is far from ebullient. The unit's stunning successes in digital technology haven't done enough to buoy parent Thomson Multimedia—part of a government-owned conglomerate—which suffered a $122 million net loss last year. "We're up $200 million to $300 million [in revenues] this year, and we're depressed," says Joseph

> Thomson has pulled out all the stops in research, hiring 200 new engineers

CLAYTON: *Exploring acquisitions in software*

P. Clayton, executive v president of the U.S. un

Prestat, unfazed, pla the blame on $2.45 billio debt he inherited from p decessors. Servicing t wipes out Thomson's slim erating profits (chart, p 114)—and some of it evaporate if the French g ernment privatizes Thom next year, as expected. E so, Prestat can't entirely miss a technology parad success without profits. deed, placed in the spotl thanks to its digital sate system (DSS), Thomson pears to be a test case the entire consumer e tronics sector—ever a l margin box business. A while the shift from ana to digital technology op new opportunities, like DS doesn't spell instant wea "With technology explod all over the world, it's har than ever to keep a com itive edge," observes Lor Edelheit, research chief General Electric, which s its RCA and GE consu brands to Thomson in 19

With no other choice, P stat and his colleagues are testin new strategy. To get the most mile from research and development, the trying to create "architectures" whole families of new products. In ory, the products can then be introdu in rapid succession, with minimal vestment in new plants, thus keep Thomson one step ahead of competit

FREEING UP CASH. To make this con work, Thomson must still take all obvious steps to stay lean and lim Since 1992, Prestat has slashed co fired redundant managers, and uni his splintered Paris operations. He also given U.S. managers freedom to ecute projects. For example, he freed $150 million in scarce cash for DSS, w was launched with partner Hughes E tronics Corp. And he rallied affiliate Thomson Microelectronics to design c for the new, digital products.

He's also counting on Clayton to k Thomson number one in all its products in the U.S. It's already top vendor of color TVs, VCRs, and sa lite systems. To remain so, Thom will plow $50 million into DSS adverti

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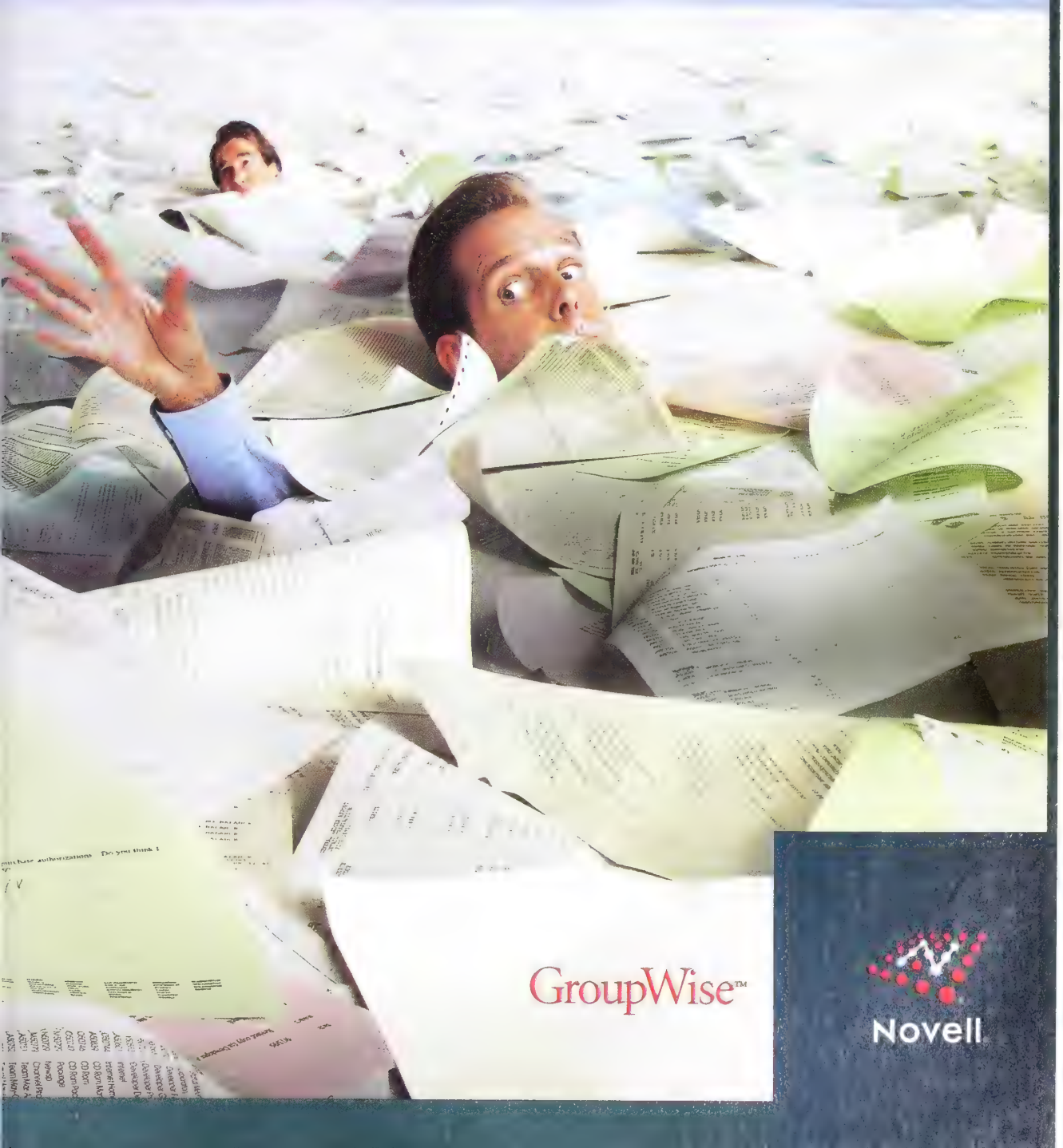


this year, and pump up distribution at stores like Wal-Mart, and Sears. Thomson is taking DSS into Latin America. And by yearend, Clayton says, Thomson will start building the same gear for sale under other brands, including Japanese companies—some of which have been Thomson suppliers in the past. "That feels very good," says Clayton, savoring the irony.

$1 BILLION DEAL. The real excitement, however, lies in becoming the architect of digital products. And the early signs are good. In September, Thomson's fine track record with DSS helped it clinch a $1 billion contract to supply set-top boxes to a video entertainment consortium called Tele-TV, made up of Bell Atlantic, Nynex, and Pacific Telesis. The group will build a wireless cable network that will let the phone companies beam movies and games into customers' homes.

The best part: 50% of the new boxes' circuits and design innovations, such as chips that compress digital signals, are identical to what's inside the DSS box. That gives Thomson precious economies of scale in sourcing and manufacturing. And there are other products on the horizon. By the time the Baby Bells fire up their wireless cable systems, in the fall of 1996, the first generation of so-called digital video disks (DVD) will arrive in American homes. These optical devices will store hours of movies and music on compact disks.

DVD will make use of the same mathematical formulas, embedded in chips, that broadcasters are using to compress programs before bouncing them from satellites down to DSS antennas. So, in effect, Thomson's DSS technology is already being incorporated into the DVD prototypes being developed by a dozen, mostly-Asian manufacturers. That will translate into license revenues, and relative ease of entry when Thomson is ready to manufacture.

After DVD, Thomson predicts a transition so profound "that every product we make will change," says James E. Meyer, senior vice-president for product marketing. By early next century, television sets themselves will go digital and begin to merge with computers, according to a vision shared by Thomson, Sony, and many others. That doesn't mean executives will play with spreadsheets from the living-room sofa. But online services—from shopping and banking to light Internet browsing—will be available on any television set.

For manufacturers, this spells an opportunity to replace tens of millions of television sets. And each new one is likely to have a built-in DVD. If Thomson gets its way, the TVs will also contain the intelligence to tell what kind of signal is coming in, despite the disparate internal encryption codes of satellite, cable, or wireless transmission systems.

To convince the public, though, Thomson has to make navigating the system much easier than, say, browsing the Internet today. "If you think 500 TV channels are confusing, imagine what happens when you add 500 services," muses Louis E. Lenzi, vice-president of Thomson's American Design Operations. Lenzi sees this as a major opportunity. He's working on the viewing guides consumers will need when the worlds of TV and computing collide.

By Christmas, a second generation of DSS equipment will give users a glimpse. As viewers surf 175 channels, they'll be able to pull down screens called channel banners, with program information, and highlight choices with a click of a remote control. Soon, the familiar RCA canine mascot, Nipper, will be enlisted as a kind of intelligent agent. He'll remember each family member's viewing choices and make suggestions. "We will no longer offer just boxes but systems and services," says Prestat.

The idea of couch potatoes sur the Internet may sound implausible. most computer analysts think ther room in cyberspace for new devices could kick the multimedia ball into consumer electronics court. Whet they are sub-PCs or large-screened W browsing televisions, "they will fo the consumer electronics business m el: price points, distribution, and br ing," predicts Frank Gens, senior v president of research at Internati Data Corp. in Framingham, Mass.

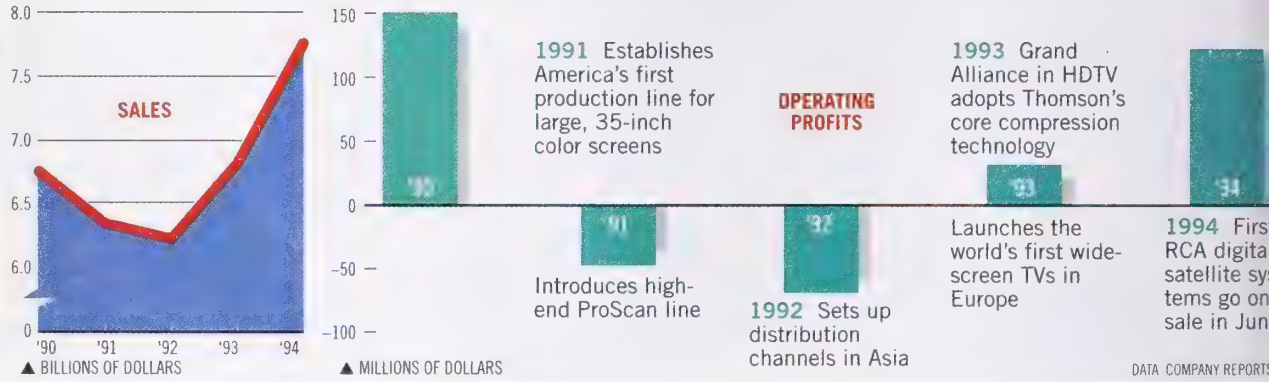
CONUNDRUM. To ensure that the tra tion goes smoothly, Thomson has pu out the stops in research, hiring as m as 200 new engineers and beefing u expertise in human interfaces. And C ton is exploring software-related ac sitions, though he won't specify targ

The question is whether all of digital pioneering will enable Thon to finally solve the core conundrum consumer technology: how to make m ey despite huge manufacturing costs price wars. If so, they'll be buckin global trend. Japan's $69 billion g Matsushita Electric Industrial Co., example, "is trying to get out of tr tional audio and video products," Chuck Goto, a managing directo Smith Barney Inc. in Tokyo. The rea Only a tiny fraction of its profits c from its high-tech Panasonic brand go

Against this grim backdrop, Th son seems to be holding at least a good cards. After all, with DSS it m aged to find and dominate one of rare "killer applications" of the m media age. And the company has a at creating a continuous stream of lated products. Pioneering a new di consumer market, even without profits, is not a bad starting place.

By Neil Gross in Indianapolis Gail Edmonson in Paris, with Ste Brull in Tokyo, and Eric Schine in Angeles.

The Satellite Craze Has Lifted Thomson, But Profits Are Thin



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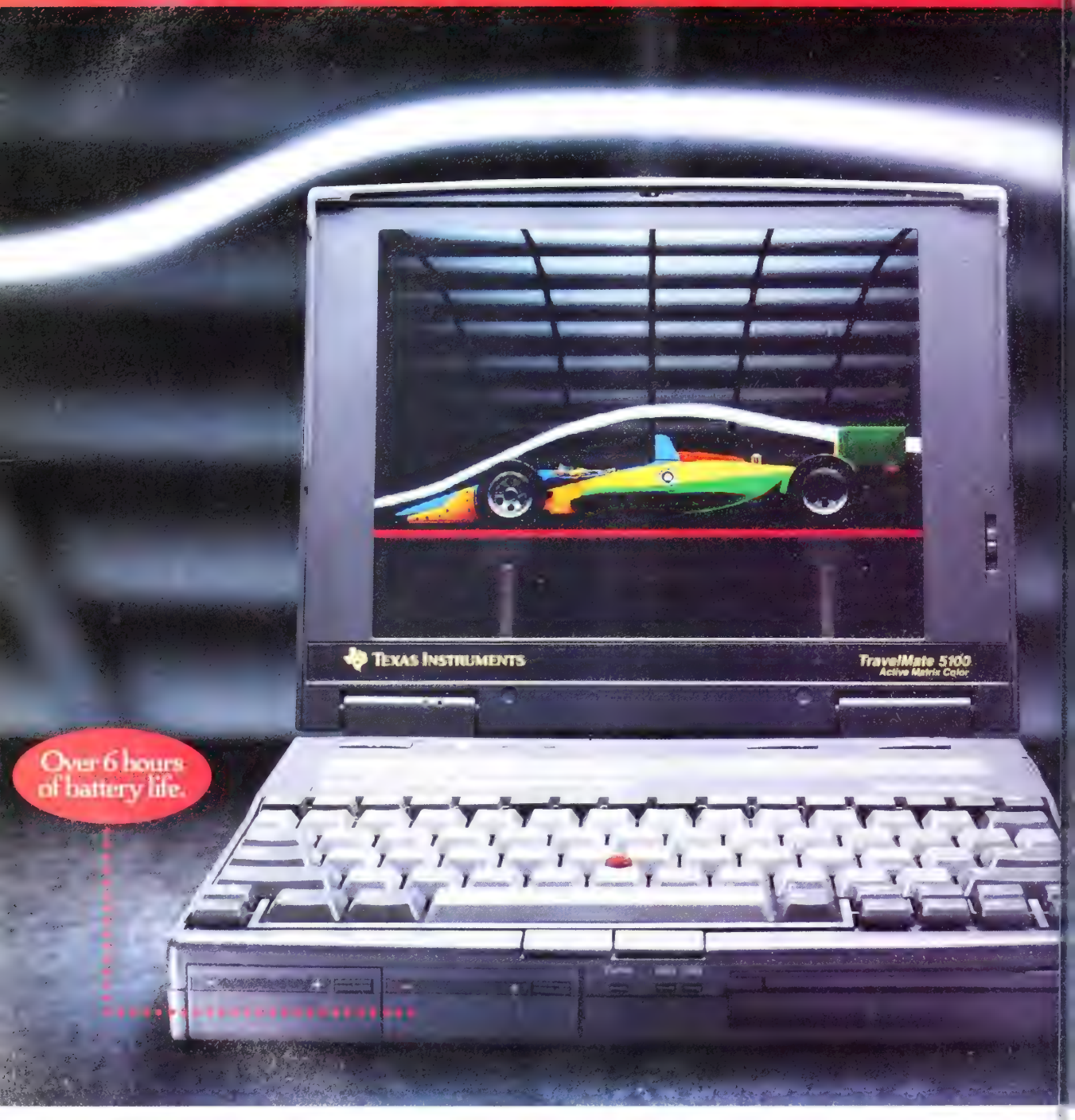

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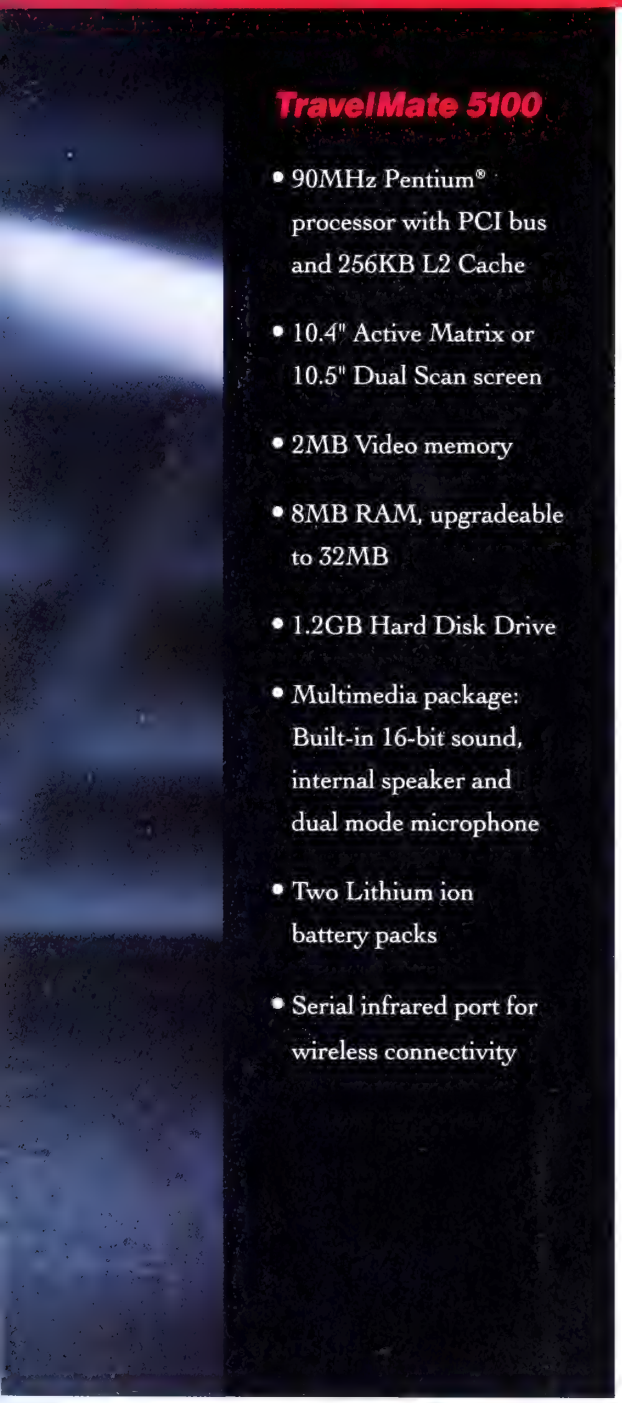

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REWRITING THE SOCIAL CONTRACT

GOP fervor goes way beyond what most Americans expect

Imagine a world where children care for their aging parents, neighbors look in on neighbors, and churches and charities aid society's neediest. Picture business helping to weave local safety nets for the poor. Envision farmers—freed from government constraint—planting what they want. And think of individuals and companies paying lower taxes to a shrunken federal government.

Now, imagine a world where the elderly no longer enjoy the financial and emotional security of Medicare's subsidized health insurance. Instead of having Social Security, Americans would have to save for themselves—or do without in old age. Poor children would be forced to rely on cash-strapped charities for food and shelter. Family farms would withe the face of subsidized foreign competition. And should most anybody fall on hard times, they would be respons for picking up the pieces themselves.

Jeffersonian utopia or Social Darwinist hell? Each is sible under the new social contract that House Speaker N Gingrich (R-Ga.) and his band of Republican revolutiona propose to write for the nation. In their world, no one w automatically be entitled to aid from a stripped-down wel state. An entitlement, in Washington speak, is a guaran government check based on legal eligibility. And this y nearly $900 billion will go to everyone from seniors to fa

The War On Entitlements

	ISSUES	PROS	CONS
THE CURRENT BATTLEGROUND	THE SAFETY NET FOR THE POOR The GOP would turn welfare, Medicaid, and food stamps back to the states. Washington's role would be limited to funding a decreasing share of the programs.	Reformers claim these programs can be run far more effectively by states, cities, and even private charities.	Critics fear a radical erosion in aid to the poor.
THE NEXT TARGETS	MEDICARE The $200 billion health insurance program for retirees faces some benefit cuts and premium hikes this year. But deeper cuts and a possible restructuring will be needed down the road.	Even with this year's likely changes, Medicare is still in dire financial straits, which will only get worse as baby boomers retire.	No one knows whether proposed changes, such as shifts to HMOs, will really save money.
	FARM SUBSIDIES House Republicans tried to end guaranteed farm payments but will probably be stifled by the Senate—this year. With budget-slashing suburbanites dominating the party, these guaranteed price supports may be doomed in a few years.	Critics says the payments are giveaways to agribusiness and raise food costs for consumers.	Agricultural interests say the payments ar needed to preserve family farms against subsidized foreign competitors.
ON THE HORIZON	SOCIAL SECURITY By far the biggest entitlement. It's off the table for now, but exploding costs—$500 billion by 2002—make it a future target.	Individuals need to increase their own savings rather than having Washington save for them.	Allowing the wealthy to opt out could destroy the system.

DATA: BUSINESS WEEK

ASAKO KADOYA

81-year-old widow, East Los Angeles

> "I guess they have to cut somewhere because otherwise it will be our grandchildren who suffer"

ers to welfare mothers. That social contract—which has been the hallmark of Washington's obligation to the people since FDR's New Deal—would be torn up and redrawn. Under the GOP compact, Americans would be weaned from handouts and pushed to self-reliance. It's only appropriate that in an era of scaled-back government, Gingrich's rallying cry might be an abbreviated version of John F. Kennedy's credo: "Ask not."

Largely lost in Washington's current squabbles over balanced budgets and debt ceilings, this rewriting of the social contract may be the Republican revolution's most sweeping legacy. The welfare state would be replaced with an Opportunity Society based on the idea that nothing is guaranteed save the chance to prosper. "You cannot make this country work if you wander around telling everybody they're a victim, they're entitled," argues Gingrich. Adds University of Texas journalism professor and conservative author Marvin Olasky, an influential social policy adviser to the Speaker: "Ending the concept of entitlement is a revolution."

The Nov. 7 election, which the GOP tried to turn into a referendum on its reforms, suggests that many voters fear Republicans have gone too far, too fast. Still, while Gingrich will never get all he wants, he has already brought the days of 1960s-style Big Government to an end. And that will have profound economic as well as social consequences. Less spending and smaller deficits would lower interest rates and boost the economy. But in periods of recession, government's reduced ability to automatically pump new cash into people's pockets could slow recovery. That could hurt some government-dependent states and businesses badly.

It is no surprise that the GOP is targeting poverty programs. But Gingrichite true believers also are aiming at business and middle-class subsidies. While a coalition of Democrats and moderate Republicans have succeeded in toning down some of the more dramatic changes this year, the hardliners insist they're unbowed. Indeed, GOP pledges to balance the budget and rewrite the tax code will force it to strike corporate and middle-class entitlements in future years.

A MATTER OF TIME. The Clinton Administration's willingness to accept the direction—if not the scope—of this assault makes fundamental change that much more likely. No longer do Washington insiders ask if these changes will come. They only question how many and how soon.

Although GOP firebrands captured the public imagination by calling for an end to deficit spending, money isn't the real issue. Even if the U. S. balances its budget, the GOP reformers would still try to eliminate entitlements, which they see as morally bankrupt. Indeed, their first round of reforms won't cut outlays at all. While the share of federal spending on the poor would remain at about 20% through 2002, the elderly would enjoy a big increase, from 34% to 41%.

That's why it's crucial to look beyond today's budget debate. Already, GOP reformers are on the way to giving states responsibility for welfare, food stamps, and medical care for the poor—with the likely result that federal social spending will fall $20 billion below levels needed to maintain current benefits. But that would be just the leading edge of the as-

sault on entitlements. Next to take a hit: middle-class benefits, such as Medicare and college loans. Both will be trimmed somewhat this year but could face dramatic restructuring should the revolution continue. Corporate entitlements won't be immune either. Guaranteed payments to farmers will be cut by about $13 billion by 2002 and could well be abandoned after that. Corporate tax subsidies—the other form of entitlement—will also be trimmed this year. And they face radical change should the GOP follow through on its promise to rewrite the tax code.

Will business accept these cuts? Well, to a point. Says Gordon M. Binder, CEO of Amgen Inc.: "Pure subsidies are wrong and generally aren't successful." Yet he says the GOP should go slow in its effort to eliminate a tax break that helped him to build a plant in Puerto Rico two years ago: "Government ought to keep its promises," he argues.

The final GOP target may be Social Security. Republican crusaders are flirting with privatizing the heretofore sacrosanct program. And even some moderate Democrats, including Nebraska Senator Bob Kerrey, want to steer Americans off the federal pension system by shifting a portion of payroll taxes into private investments. Argues House Majority Leader Richard K. Armey (R-Tex.): "We can allow younger workers to begin directing some of their money to private accounts under their own control."

All this is far more change than Americans are usually willing to accept. But deep economic insecurity combined with a powerful distrust of Washington may make the public more open to the GOP's reasoning. Even President Clinton has been moving in that direction—though far more slowly. The Administration allowed 35 governors to design their own welfare-to-work programs. And it has tentatively endorsed the idea of ending the federal entitlement to welfare. But the Clintonites have also pushed for new entitlements, such as job training and education. And they insist the GOP's new social contract is a mistake.

"Are we an economy in which the social glue binding us is little more than the business we transact with each other?" asks Labor Secretary Robert B. Reich. "Or are we still a society w strong obligations to ensure that each one is adequately p tected and has a fair shot at success?"

Nonetheless, even moderate Democrats are troubled what's happened to the modern safety net. "There's a sponsibility to help needy people but not give them a legal titlement," says Will Marshall, president of the centrist P gressive Policy Institute. "The politics of entitlement unsustainable—ethically, morally, and financially."

Where the Ax Will Fall

The Republicans cap Congress last year lar because of strong par gains throughout the South. Ironically, man the states in that regi are heavily dependent federal aid. So they st to lose the most if GO lawmakers succeed in enacting their long-te plan to curb entitleme from Washington.

TOUGH LOVE IN THE HILLS OF VIRGINIA

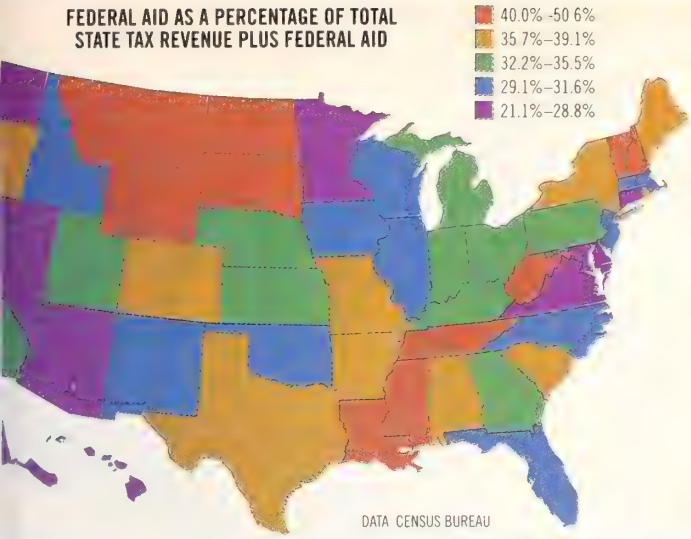
Loretta Kilby says she has been looking for work, but you couldn't tell from her resumé. The 30-year-old single mother of four girls has squeaked by for the past 10 years with a little cash from babysitting, some support from the two fathers, and a lot of help from Washington: $265 a month in welfare, $492 in food stamps, and free health care from Medicaid.

But all that is about to change, thanks to Republican social reformers. In a bold experiment soon to be repeated throughout America, a small section of the Virginia Piedmont has begun experimenting with the sort of "tough love" welfare overhaul that is now about to pass Congress. For the past four months, Kilby and 150 other welfare moms in Culpeper County have been under strict new orders: Find a job or be assigned one, send your children to school, and identify the fathers to make sure they're paying child support. Refusal means an aid reduction or even a cutoff. What's more, payments for the main welfare program, Aid to Families with Dependent Children, are limited to two instead of the old open-ended sys

It's still too early to declare V ginia's radical program a success ure. But some hopeful signs are ing in this county 29,000, about 80 m west of Washingto Half the welfare r have already foun at the local hospit teria, at a uniform company, and an a tive-parts supplier other work sites. while, several doz the dole, perhaps they had hidden i And some missing have ponied up th support.

One lesson is a clear: As the feds off from guarante care to the poor, t abled, and the eld much of the burd ply falls to institu

SOCIAL SERVICES COLEMAN: HELP F BUSINESS IS CRU TO WELFARE REF



ı fact, conceding that many entitlements have failed, Demtic moderates are searching for a middle ground that ects the truly helpless but ends automatic benefits for busi- and individuals able to help themselves. Says Urban Inte scholar Isabel Sawhill, ex-associate director of Clinton's ce of Management & Budget: "Republicans are going h too far. But there's some responsibility to be borne by ıocrats. We promised to solve these problems—crime, erty, and education—but never had much to show for it."

This soul-searching comes as the public believes too many beneficiaries are getting something for nothing. "The American ethos is about individualism and the work ethic," says Barnard College political scientist Judith Russell. "In the case of welfare, the perception is that nobody works, nobody earns these things."

"CHEAP GRACE." Still, most Democrats contend that the GOP has turned the 1994 election into a misguided mandate to unravel the safety net. "We've had a federal contract with low-income people, and that's being broken," says Budget Director Alice M. Rivlin. Indeed, a BUSINESS WEEK/Harris poll conducted on Nov. 2–6 found that while respondents showed greatest support for middle-class entitlements, a majority of Americans want Washington to guarantee minimum levels of health care, child care for low-income working mothers, and even jobs for those willing to work (page 138). Such numbers are an ominous warning that the reformers may have overreached. They are pressing ahead, however. One reason: Entitlements already account for 61% of the federal budget and will explode to 80% by 2005. So a GOP balanced budget is impossible while protecting corporate and individual entitlements.

Moreover, Republican ideologues argue that the welfare state destroys families, communities, and the work ethic itself. Entitlements, says Olasky, offer "cheap grace" that lets the middle class shift social obligations to the government. "It's gotten us to believe we haven't got any responsibility for our neighbors," says Representative James M. Talent (R-Mo.).

When it comes to open-ended public assistance, many

ınity. "You cannot have welm without bringing business ıle," insists Calvin Coleman, ıf county social services. Colehis own restaurant business to ial work here in the shadow of Ridge Mountains seven years e then, he has managed to ıre than a dozen county busito almost every part of the ent security blanket.

E. Culpeper may seem an odd y to test the theories of the ve Welfare State. It's best the Civil War site of the largy battle ever fought in the Hemisphere (the Yankees lost). s a mix of horse and cattle l light industry, where people ange pleasantries on the ut like many rural areas, it erty and hopelessness behind fences. The number of food ipients, about 2,300, approxi- 10% national average.

s job-training program already y, Culpeper volunteered in augurate GOP Governor llen Jr.'s Virginia Initiative for ent Not Welfare. When Coleht help from the local Chammmerce, business members l he forget training for specific "give us people with a work ling to work as a team," says director Norma K. Dunwody.

The result was a six-week course emphasizing such basics as how to arrange for backup babysitters, car pools, and rides to work. Business execs conduct practice interviews, then mentor the new hires. In return for shaping the curriculum, 25 businesses—from car dealers to cleaning services to a funeral home—agreed to give graduates first crack at some of their entry-level jobs. Other companies formed a Literacy Council. A builder donated office space, and other businesses gave the materials to teach the skills needed to pass high school equivalency exams.

Another lesson from Culpeper is that reform costs lots of up-front money. Coleman's operating budget more than doubled, to $343,000. Once welfare mothers get jobs, they keep such crucial benefits as free medical care, since the first serious illness could force the family back on welfare. Trouble getting to a job? Social Services will repair a car, provide gasoline, or even pay a traffic fine. Most important is the free child care for any mother who needs it. From a renovated school, Social Services is building a day-care and job-training site. For Helen D., a 29-year-old mother of three kids under age eight, the free, all-day child care is critical. "Paying for day care, it hardly pays to go back to work," she says. "With a little help, a lot of people wouldn't be in my situation."

Sometimes, the innovations of local folks have proven more valuable than government dollars. Encourage welfare moms to ride to school with their kids, take an adult education course, work part-time as classroom aides, and return home on the bus, the school superintendent suggested. And Social Services employees suggested having bankers teach recipients about mortgages and credit. "Once you explain how they have the potential to buy their own home, you can really motivate people to work and save," says Coleman.

Will such programs work in the inner city with its concentrated poverty and intransigent bureaucracies? That's uncertain. With its jobless rate of 3.3% and a rural help-your-neighbor tradition, Culpeper's experience may not translate. And the sheer scale of a city's problems will be much more difficult to tackle as cutbacks reduce funds for day care, transportation, and infant formula.

But city or country, "most people want to work, and often it's just a matter of breaking the pattern," says Lisa Houck, a Culpeper social worker. Kilby agrees: "I've always wanted a regular job—always. I know my destiny is to get a good-paying job, but without the experience, I know I need help." To get that here in the Piedmont or in places 100 times bigger, tough love and local action may be just the right mix.

By Paul Magnusson in Culpeper, Va.

ALAN BAGEDEN

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Americans seem to agree with Talent. "Too many people rely on the welfare system," says Joyce Norwood, a 63-year-old Dallas apartment manager. "Years ago, people took care of their own, and we seemed to manage."

Perhaps. But skeptics warn that ending this national obligation could produce dangerous side effects. For farmers such as Ken Dalenberg, who grows corn and soybeans in Mansfield, Illinois, it means leaving him unprotected in an era of tough international competition: "I feel uncomfortable giving up entitlements without a show of good faith in the area of trade," he explains.

Some fear de-entitlement will exacerbate racial and class polarization, asking: Will the separatist rhetoric of Louis Farrakhan or David Duke thrive if social obligations extend only to neighborhood boundaries? Still others worry about a return to Dickensian privation. "The people who do this will go to their graves in disgrace," fumes Senator Daniel P. Moynihan (D-N. Y.). "In five years time, you'll find appearing on your streets abandoned children—helpless, hostile, angry, awful—in numbers we have no idea."

DANIEL BURNETT
Product design engineer, Massachusetts

"I'm not against providing aid [to the needy]. But they have to make an effort to go out and search for work"

Even supporters of the GOP initiatives are troubled by their improvisational nature. "In fact, [Republicans] are simply cutting aid for the poor.... Slow-motion defunding of the welfare state isn't an answer," charges James P. Pinkerton, an aide in the Bush White House. And concedes pollster Frank I. Luntz, a Gingrich adviser: "Republicans are stil step short. They have ended the Great Society and lenged the New Deal, but they have not yet replac with the Opportunity Society."

In the interim, Gingrich has decided to let the states, dominated by GOP governors, handle the details. Repub state officials are thrilled: "We're convinced there is compassion and intelligence left in Texas. It hasn't all go Washington," says state Health & Human Services Con sioner Michael D. McKinney.

But with this newfound freedom comes a gigantic resp bility: Ending entitlements would cap federal contributio the states. Extra expenses will be the sole responsibility of ernors, who lack Washington's ability to print money. If h costs soar or a recession hits, states will be left holding the

If past experience is any guide, more money will be squ from education. Since 1989, spending on Medicaid and pu has climbed from 13% of state budgets to nearly 20%, whi ucation spending has fallen 49% to 43%. Hard-pressed s are also sure to take money from cities—just as they are asked to shoulder more resp bility. "There's some scary coming down," says John Cle chief of governmental relatio Los Angeles County's Public cial Services Dept. "This isn form. It's just a cost shift."

Welfare reform poses a fu complication. The transition to state-run programs will cost save—money, experts say. In ginia, Culpeper County officia experimenting with a promisi lot program to get welfare mo into jobs (page 122). But to sure the program works, Rich has given the county twice its al welfare funding. Nationwi could cost $15 billion to provid child care and job training ne to get welfare moms to work

Another key question: happens in a downturn? D the 1990-91 recession, auto federal spending hikes let many governors maintain the ty net without cutting programs or raising taxes. Acco to the Center for the Study of the States in Albany, states enjoyed a 34% increase in federal welfare and re payments and only had to raise taxes 9% during the s But without entitlements, says Director Steven Gold, " we have a recession, the money's not going to be there

Economists David and Christina Romer of the Univ of California at Berkeley estimate these fiscal stabi boost growth by one-third in the first year after a rece So in jettisoning entitlements, Washington might al throwing away that cushion. "You'll see some vicious ne cycles, where states are trying to make up for falling enues and cover higher benefit costs at the same time," Harvard University economist Lawrence F. Katz.

Ironically, the biggest losers could be the very s where the GOP is now making strong inroads—relatively states in the South and elsewhere that rely most on fe aid. Without that largesse, these states will be forced to cut services or raise taxes—and will fall even further b in the race for economic development (map, page 123).

Even critics of the status quo question shifting resp bility to states. Robert Woodson, president of Washin

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National Center for Neighborhood Enterprise, which focuses on local economic development, would rather "devolve beyond government to individuals and civic institutions." Woodson believes that churches, local charities, and community organizations can best care for their own disadvantaged, in part because they are more flexible and caring than government.

The model for this new system, explains Olasky, is the late 19th century social reform movement, built around private charity, work, and morality. Says David Boaz, vice-president of the libertarian Cato Institute: "The current social contract has created a world of single parenthood and crime. There really is a spiritual poverty, a breakdown of family, community, and neighborhood."

HISTORY LESSON? But many academics insist that applying 19th century solutions to today's problems reflects a flawed reading of history. Says Michael Katz, a social historian at the University of Pennsylvania: "Read the records. The degree of deprivation under which people lived was just staggering." Yet Olasky counters that private charities still improved the lot of the poor: "I'm not saying they were able to bring about a pleasant situation, but given the degree of difficulty they had, they did remarkably well."

These days, private charities—especially in big cities—are terrified that they'll be unable to survive de-entitlement. In Boston's tough Roxbury neighborhood, Sojourner House has been providing shelter for homeless families for 14 years. About 70% of its $350,000 budget comes from Massachusetts, the rest from private givers. The home already turns away three to four families a week because it lacks the resources. Less government involvement will only add to that demand. "I don't think the community will step up and pick up the slack," says Executive Director Anastasia Lopopolo.

Nor will many corporations, whose gifts have actually fallen in the past two years, while overall private giving has been flat at about $125 billion. Lotus Development Corp., for example, gave $2 million to private charities in 1995, down nearly 18% from 1994, due to declining profits. Explains Michael P. Durney, director of philanthropy and community affairs: "There has been this belief in Washington that there are substantial untapped resources in the private sector that will swing into place if the federal safety net is diminished. That is not true." Adds Holly Tennyson Hands, who chairs the donations committee at retailer Neiman Marcus: "The private sector will do a lot. But we're already doing a lot."

Even charities with strong private support aren't immune. PUENTE Learning Center in East Los Angeles teaches 2,000 mostly Latino students in a facility built with private funds. Mattel Inc. Vice-President Glenn Bozarth calls it "a model that demonstrates that the void can be filled by a partnership between corporations and communities." Still, PUENTE's director, Sister Jennie Lechtenberg, frets about reduced social services in Los Angeles County. "All these cuts mean more problems, more parents out of work," she says.

Some Republicans argue that expanded charitable work may require more than good will. To give the idea a boost, Senator Dan Coats (R-Ind.) and others would provide generous new tax breaks for individuals doing good works, such as providing home care for the needy. Still, the reformers are attempting an uphill battle to change history. Despite the Right's romantic lore, Americans have been hooked on guaranteed cash payments for more than 200 years (table). As far back as the Revolution, the fledgling nation promised pensions to soldiers in the Continental Army. And Civil War pensions grew into a massive retirement program that by 1893 provided benefits to nearly 1 million elderly.

But those payments came in exchange for service. Even in

ENTITLEMENTS: THEN AND NOW

◀ **1778** In the first entitlement program, wounded Revolutionary War soldiers are granted pensions. At first, only officers and the disabled are eligible. By 18 any vet who could prove p erty was entitled.

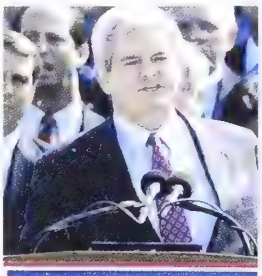
▶ **1862** President Lincoln offers the promise of postwar pensions to spur Civil War enlistments. By 1893, the program becomes the first widespread federal income security program, serving nearly 1 million elderly and absorbing 41% of the federal budget.

◀ **1932** In the depths o the Depression, World War veterans march on Washing ton, demanding immediate payment of $1,000 bonus promised to all vets. Congress refuses.

▶ **1935** The New Deal spawns Social Security for retirees and Aid to Dependent Children—the forerunner of today's welfare program. Later, President Roosevelt pushes other entitlements, such as unemployment insurance.

◀ **1965** As part of his Great Society agenda, President Johnson creates Medicare, which pro vides near-universal health cove age for the elderly.

▶ **1983** Congress and Ronald Reagan agree on a package of reforms to the troubled Social Security system. They increase payroll taxes, boost the retirement age, and tax benefits of high-income pensioners. Still, spending grows.



CONTRACT WITH AMERICA

◀ **1994** Republicans sweep Congress on the strength of their Contract With America. After taking power, they vow to end entitlements for welfare, food stamps, and Medicaid

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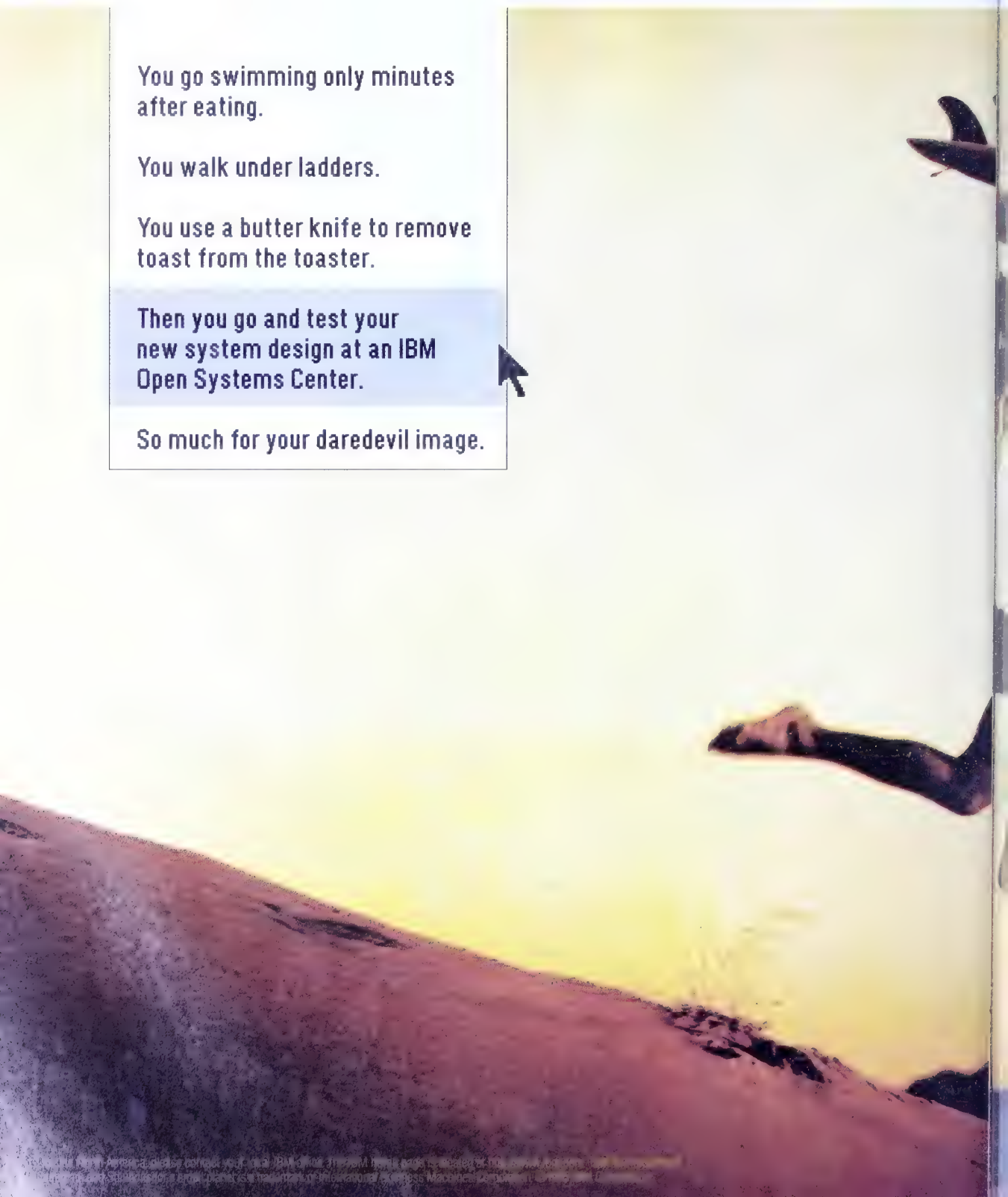

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"Pure subsidies are wron and generally aren't succes ful...,[but] government oug to keep its promises"

the New Deal, the safety net was offered as only temporary aid from the hardships of the Depression. In 1935, President Roosevelt himself worried about "continued dependence upon relief." And he warned: "To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit." Says William Galston, a former domestic policy adviser in the Clinton White House: "The New Deal bargain was based on the proposition that upstanding people who wanted to take care of their families had been prevented from doing so by circumstances beyond their control."

Cover Story

By the 1960s, though, the ties between work and government aid had become far more tenuous. Critics began to worry about the creation of a perpetual underclass. Now, in cities such as Cleveland and Atlanta, at least half of all children are on welfare. "The perception is that there's a breakdown in society, that people playing by the rules aren't getting rewarded," says Anne Cammisa, visiting scholar at Radcliffe College.

That's certainly what Daniel Burnett, an Easthampton (Mass.) product design engineer, believes. "I'm not against providing aid" to the needy, he maintains. "But they have to make an effort to go out and search for work. If you're getting a dollar from the state—and I'm paying it—you should repay it."

If public assistance to the poor has failed to end poverty among children, entitlements for the elderly have been a roaring success—though at enormous cost to taxpayers. In 1966, nearly one-third of all people over 65 lived in poverty. Today, it's barely 12%. Urban Institute s fellow C. Eugene Steuerle calculates that a typical ple turning 65 this year could get a staggering $46 in Social Security and Medicare benefits before die—far more than they paid in taxes.

For now, that social commitment will remain l ly in place. But as baby boomers age and their be begin to swallow more and more of the federal bu pressure to scale back even those entitlements grow. One possible outcome: tying Medicare and S Security payments more directly to income. Ame current crop of seniors, naturally, isn't thrilled b prospect. "I guess they have to cut somewhere because erwise it will be our grandchildren who suffer," says A Kadoya, 81, a widow living in East Los Angeles. But frets, the GOP cuts "will be a hardship on senior citizen

Yet the current debate over alternatives to Washi handouts transcends whether graying boomers will be al keep their BMWs into their platinum years. The futu Republicans' decades-long quest for majority status is a stake. Roosevelt guaranteed Democratic domination of A ican politics for a generation by establishing government' in caring for those who had fallen on hard times. Pres Johnson expanded the federal obligation by creating long entitlements for those wh not work—sowing the see the current collapse of D cratic influence.

Gingrich, by his own a sion, is taking a risk at le great. If GOP reformers ca sign market-based incen that really do move people welfare to work, contain h costs without sacrificing qu and prod individuals and co nies into playing a bigger in fighting poverty, Repu realignment will become a ty. More important, Am may return to its bedrock ciples of individual initiative if the GOP Revolution vee into a war of retribution ag largely unprotected Demo constituencies, the New social reformers will have both as political visionarie as social engineers.

By Howard Gleckma Washington, with Mark mont in Boston, Eric S in Los Angeles, Ann Th Palmer in Chicago, Jeff man in Dallas, and b reports

KEN DALENBERG
Illinois farmer

"I feel uncomfortable giving up entitlements [while foreigners are subsidized]"

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2 What is your title?

A ❑ Chairman of the Board B ❑ President C ❑ Vice President D ❑ Treasurer, Secretary
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H ❑ Other Manager I ❑ Student J ❑ Other - Please Specify:

3 How many employees in your company worldwide?

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6 ❑ 10,000 or more

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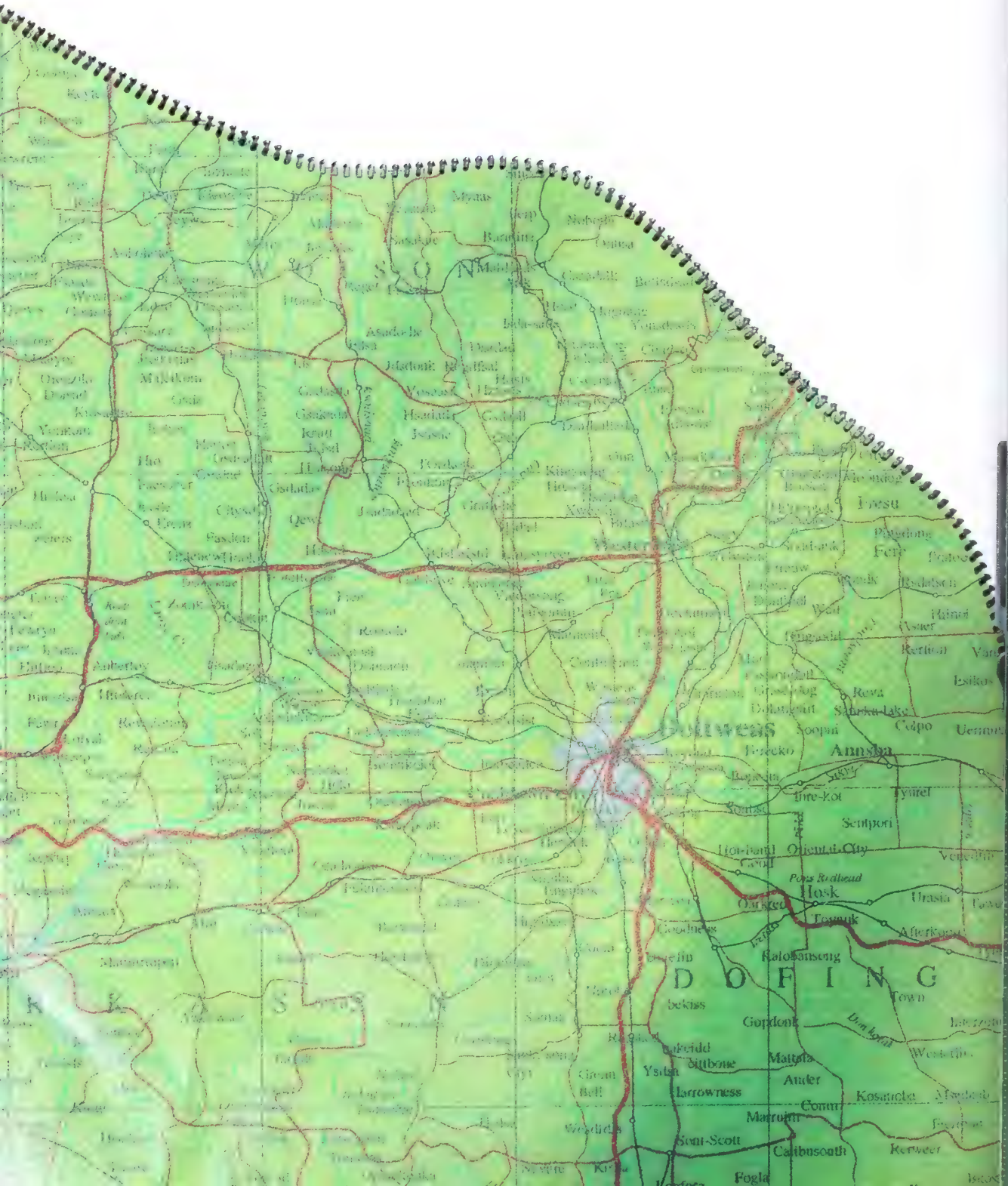

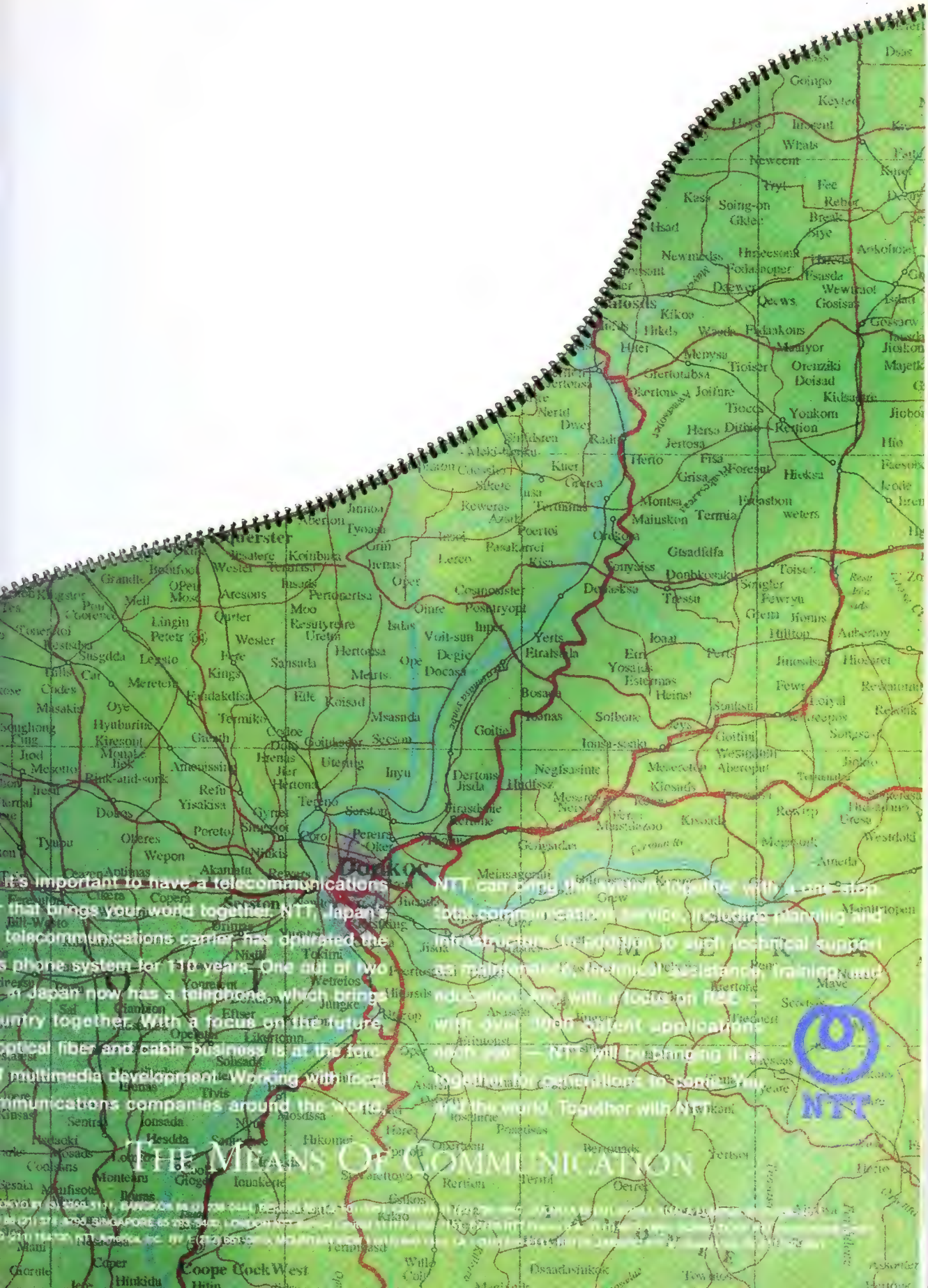
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THE MEANS OF COMMUNICATION

PORTRAIT OF A SKEPTICAL PUBLIC

Cover Story

Whose ox will be gored? Americans continue to support middle-class entitlements, such as Social Security, by a wide margin. What they care less for is welfare—whether it's for the poor, farmers, or corporations. In general, though, the public agrees more with the Democratic notion of government as protector of society's most vulnerable than with the Republican vision of Washington as arm's-length guarantor of an "opportunity society." And they're skeptical of Republicans' motives for spending cuts, agreeing b a wide margin with President Clinton's charge that the sav ings will just go to pay for a large, unnecessary tax cut.

RATING THE PRESIDENT

How would you rate the overall job President Clinton is doing as President—excellent, pretty good, only fair, or poor?

Excellent	6%
Pretty good	45%
Only fair	33%
Poor	16%
Not sure	0%

RATING CONGRESS

And how would you rate the job each of the following is doing—excellent, pretty good, only fair, or poor?

	EXCELLENT	PRETTY GOOD	ONLY FAIR	POOR	NOT SURE
Senate Majority Leader Bob Dole	4%	32%	40%	18%	6%
Republicans in Congress	5%	30%	39%	24%	2%
Democrats in Congress	3%	31%	44%	20%	2%
House Speaker Newt Gingrich	7%	24%	33%	29%	7%

A HELPING HAND: WHO DESERVES IT?

We're going to ask you some questions about the relationship between the federal government and U.S. citizens. Do you agree or disagree that the federal government should guarantee each of the following?

	AGREE STRONGLY	AGREE SOMEWHAT	DISAGREE SOMEWHAT	DISAGREE STRONGLY	NOT SURE
A Social Security pension to help provide for retirement	73%	19%	5%	2%	1%
Some minimum level of health care	61%	25%	8%	5%	1%
Nursing-home care for the elderly	53%	31%	11%	5%	0%
Subsidized prescription drugs for the elderly	53%	31%	11%	5%	0%
Temporary unemployment-insurance benefits	42%	38%	13%	6%	1%
Public assistance payments for those who cannot work	32%	46%	13%	8%	1%
Continuous access to job retraining	40%	37%	14%	8%	1%
Child care for low-income working mothers	40%	35%	14%	10%	1%
A job if Americans are willing to work	51%	21%	15%	12%	1%
Price supports for farmers	29%	36%	18%	15%	2%
Food stamps for low-income individuals	24%	38%	24%	13%	1%
Federal aid for high-tech manufacturers vying to create new markets	15%	33%	30%	21%	1%

THE EARNED INCOME-TAX CREDIT

Currently, many low-income people who work qualify for a special low-income tax credit designed to increase their earnings. Do you think that this tax credit should be maintained at its current levels, reduced, or eliminated altogether?

Maintained	70%	Eliminated	8%
Reduced	19%	Not sure	3%

THE GOP'S 'OPPORTUNITY SOCIETY'

Many Republicans in Congress believe the federal governmer should not guarantee minimum living standards or provide so cial benefits for its citizens. Instead, the Republicans propose to create an "opportunity society" in which the federal govern ment assures all Americans of an equal chance to prosper based on each individual's merits. Do you strongly agree, som what agree, somewhat disagree, or strongly disagree with this

Strongly agree	22%	Strongly disagree	16
Somewhat agree	41%	Not sure	2
Somewhat disagree	19%		

THE SAFETY NET: HOW BIG?

Many Democrats including President Clinton believe the federa government must protect the most vulnerable in society, especi ly the poor and elderly, by guaranteeing minimum living standards and providing social benefits. Do you strongly agree, some what agree, somewhat disagree, or strongly disagree with this?

Strongly agree	40%	Strongly disagree	7
Somewhat agree	39%	Not sure	1
Somewhat disagree	13%		

PRIMING THE PUMP

In order to spur economic growth, do you think the federal go ernment should:

	SHOULD	SHOULD NOT	N SU
Grant tax credits for research and development investments?	59%	38%	3
Let companies deduct the costs of their plants and equipment more quickly?	44%	50%	6
Increase government spending to help businesses develop new technologies such as computer chips?	42%	57%	1
Grant tax credits for a whole variety of investments by business?	36%	61%	3

CLINTON'S COUNTERATTACK

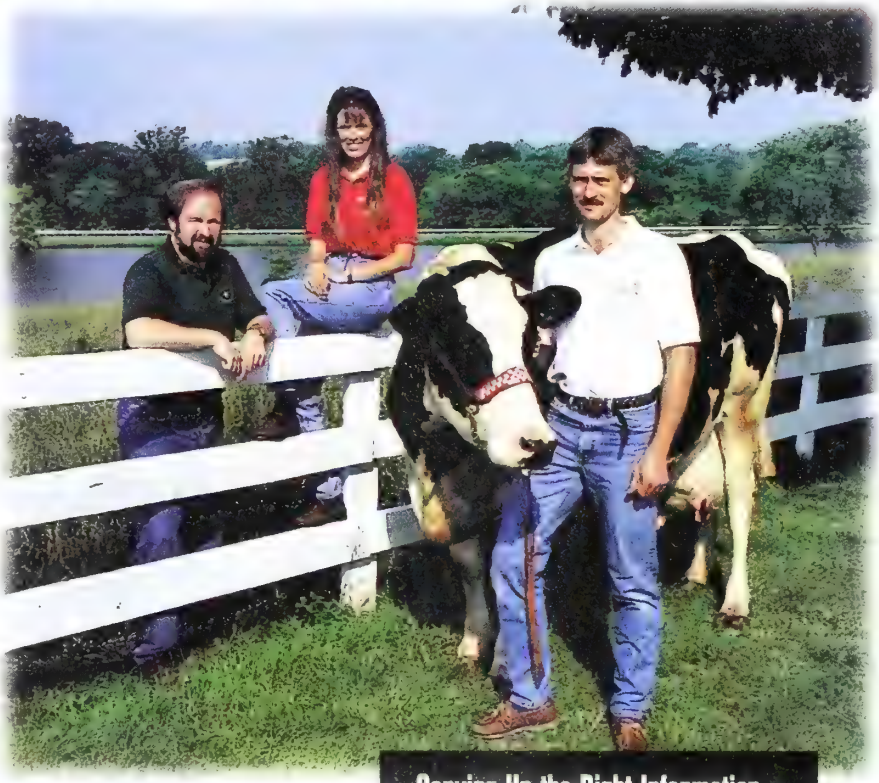
President Clinton says the Republicans' proposed reforms are being driven by a different vision of the role of the federal government. Instead, the President says, Republicans really need the cuts to pay for a big tax cut that will go to people wh don't need it. Do you agree or disagree with the President's vie

Agree	62%	Disagree	36%	Not sure	2

Edited by Mark N. Vamos

Survey of 1,007 adults conducted Nov. 2-6, 1995, for BUSINESS WEEK by Louis Harris & Associates Inc. Results should accurate to within three percentage points.

urina Mills Satisfies Data-Hungry ecision Makers with the SAS® System



Daignault, Brown, Durbin

Serving Up the Right Information... at the Right Time

very business day, information gers at Purina Mills—America's r in animal nutrition—satisfy a rent kind of craving: the need of xecutives to get their hands on egic information to support better ty decisions.

uckily, they've cut preparation time antially since adding SAS software ir menu of productivity tools. nparing the SAS System to anything we've ever used to analyze business I'd say SAS software is by far the " says Gerry Daignault, Region roller. "There was a time when we o do things manually. But today, an review many aspects of our busi- just by pointing and clicking."

urina Mills relied on the SAS System ild client/server applications now in y field representatives and managers ecific manufacturing locations. nault adds that "SAS software is so le to use that even those managers xecutives who have not previously computers feel right at home."

ng Decisions at Every Level

According to Mike Durbin, Super- of Information Services for Purina , his department needs to get nation to managers as quickly as ble, who in turn must deliver ant details to upper management ickly as possible.

"We use SAS software in many of operation including budgeting, rch, and as a management support says Durbin. "Activities include ing customer volume, current ne, and comparative analyses ome year-by-year."

Connie Brown, Purina Mills Information Analyst, says the key business benefits of using the SAS System are "improved productivity by key field management and a consistent thought process in the use of management information. There is no question that field management spends less time gathering numbers and more time using good information to support the decision process. Mapping and graphical presentations are becoming more important in the decision process, and SAS Institute has been very supportive in helping us implement these tools."

"SAS software is doing the job for us," Daignault concludes. "All of our directors will eventually have it available."

To receive a SAS System Executive Summary, give us a call or send us E-mail at bw@sas.sas.com

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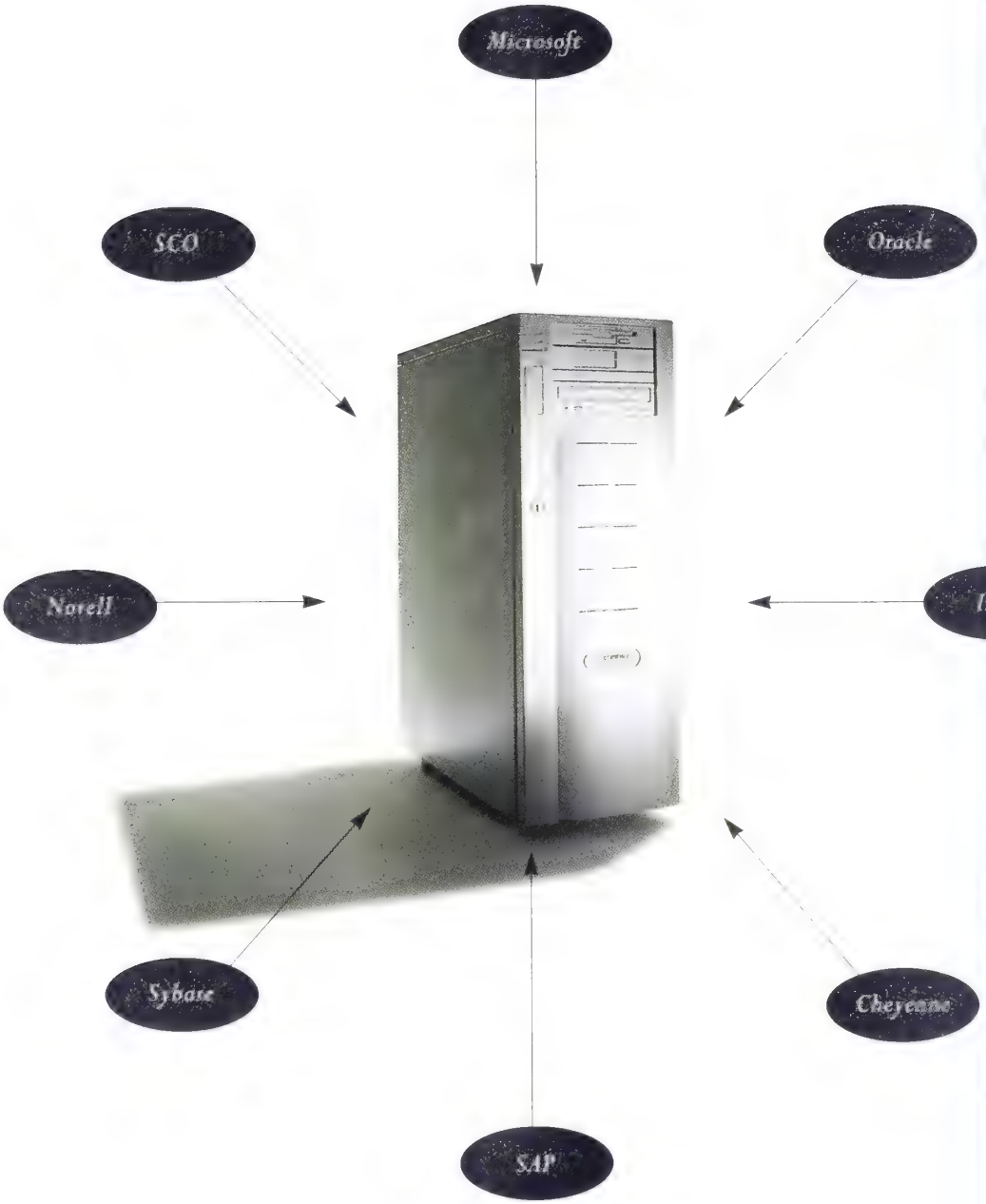

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Has It Changed Your Life Yet?

MUNICIPAL FINANCE

LAZARD GETS CLOBBERED BY ITS OWN CLOUT

The firm tried to sell munis using political connections–and is paying a steep price

Only a few years ago, municipal bonds were one of Lazard Frères & Co.'s most prominent businesses. Now munis have been relegated to insignificance. Thus it was no surprise when the prestigious Wall Street firm told employees on Oct. 31 that it would decide by Dec. 1 whether to remain in the muni business. Many insiders believe that it will close the department.

Declining muni issuance and shrinking underwriting spreads were factors. But a major reason was an ambitious and controversial bet—uncharacteristic of staid, cautious Lazard—to build its muni business largely by hiring political clout. The strategy, begun in the late 1980s, was to put on the payroll well-connected rainmakers who could use their influence on municipalities to help win muni business. Lazard moved aggressively into underwriting muni deals, a departure from its traditional and less lucrative role as a disinterested adviser.

ARCHITECT: *Michael Del Giudice testifies at muni hearings in Washington*

OUT OF CONTROL. That strategy ran into serious trouble. Much of the public attention has focused on Mark S. Ferber, a politically savvy former Lazard partner. He could face a 390-year jail term, if convicted, following an Oct. 26 indictment by a federal grand jury alleging 63 counts of fraud, accepting gratuities, and attempted extortion. Most of the charges are related to an unusual consulting contract Lazard signed with Merrill Lynch. Ferber, who set up the deal, was hired by officials to offer impartial financial advice and recommend underwriters. But Merrill paid Lazard more than $1 million a year to steer muni-swap business to Merrill, a potential conflict of interest. The indictment charges that Ferber failed to adequately disclose to clients the terms of his contract with Merrill. Lazard and Merrill settled related civil charges by agreeing to pay $12 million each, the largest ever in muni industry, for failing t sure adequate disclosures made.

The indictment against ber describes an executive of control, repeatedly exploi his position for personal For instance, in 1992, Fe met a senior Merrill exec at the Harvard Club in York and threatened to " Merrill if it did not renew million-a-year contract with the indictment says.

Thomas E. Dwyer Jr., ber's attorney, says: "An who thinks Mr. Ferber will accep nomination as the muni industry s goat will be sadly disappointed."

The firms neither admit nor guilt. Lazard says it is "the ultimat tim" of a rogue employee. "We cat ically reject any suggestion that si by entering into the muni underw business, we should have foreseen one of our bankers might engage i sort of misconduct of which Mr. F is accused." The settlement agree says Ferber "actively misled" Laza telling the firm that he had fully closed the contract to clients.

But Lazard's management broader responsibility for failing to quately supervise Ferber. The s

The Rise and Fall of Lazard's Muni Business

1975 Felix Rohatyn helps New York City end its fiscal crisis, which helps establish Lazard's reputation in muni market.

1985 Rohatyn hires top Mario Cuomo aide Michael Del Giudice.

1988 Del Giudice becomes head of muni department. He hires Mark Ferber and other former political aides to increase underwriting business.

1989 Ferber enters into contract with Merrill Lynch under which Merrill would split fees with Lazard when Lazard recommended clients to Merrill.

1990 Merrill contract expanded to include annual $800,000 retainer.

1992 Lazard's muni business hits peak.

1993 Lazard-Merrill contract becomes public; federal investigation launched. Del Giudice replaced as muni department head.

1994 Washington city council holds public hearings on Lazard-Merrill contract, where Del Giudice testifies. Merrill and Lazard agree to pay city $3.6 mi lion to settle contract-disclosure dispute.

1995 Ferber indicted fo fraud. Lazard and Merri settle with regulators fo $12 million each. Lazar underwriting ranking plu mets. Lazard announces might quit muni busine

DATA: BUSINESS WEEK SECURITIES DATA CORP.

agreement points out that Lazartners were well aware of the ct and knew that it "created at a potential conflict of interest for d." This being the case, it says, rd did not take adequate steps to that Mark Ferber met his obligato disclose the true nature and of the contract."

nagement also bears responsibil- creating a culture that stressed al back-scratching to win business. calculated that didn't need anybut political clout uality advice to nderwriting busiand that strategy blow up in their says one former yee.

main architect of m's muni political gy was Michael J. Giudice, head of d's muni departand Ferber's boss the firm's expany period. Former l employees say Giudice was not for his banking out for his political tions. He had been of staff to former York Governor Ma- Cuomo and was oed as "second the Governor in and importance in lministration" by *ew York Times.*

Giudice was one biggest fundrais- Democratic Pres- l nominee Michael S. Dukakis in nd a trustee of the Democratic ial Committee, which means he minimum $100,000. Among his Democratic friends are Ronald H. ., the Commerce Secretary and DNC chairman; and Arthur Le-, the Securities & Exchange Com- chairman. Del Giudice had little g experience and wasn't even ful- stered with the National Associa- Securities Dealers to supervise mployees until April, 1994, accord- NASD records, though he ran the ment from 1988 to 1993. John R. Del Giudice's lawyer, says that l requested a waiver from the York Stock Exchange for the re- exam but cannot locate a copy of change's response.

BUCK. It was Del Giudice who Ferber and oversaw Lazard's con- ith Merrill. Dwyer, Ferber's attor- ys that the contract was approved by superiors at both Merrill and Lazard and that Ferber disclosed "the substance of the agreement" to his clients. Del Giudice seems to agree, saying Lazard didn't want Ferber to disclose the exact details of the contract unless a client asked for them. In testimony before the Washington city council in January, 1994, Del Giudice stated: "I talked [to Ferber] about disclosure. We did not say disclose the full contents of the document."

The SEC investigated whether Del Giudice should be cited for not supervising Ferber, but dropped the inquiry. According to NASD records Del Giudice was the subject of an SEC investigation for "alleged failure to disclose a consulting agreement to a financial advisory client" and "alleged failure to supervise." The SEC said the Oct. 26 settlement ended its investigation of the firms and their current personnel. "Everyone who looked into it concluded Mike did nothing wrong," says Wing. He adds that Del Giudice was hired for his knowledge of government and denies his client used political influence or contributions to get muni business.

RAINMAKER MARK FERBER FACES FRAUD CHARGES

A fee-splitting arrangement, in which Merrill Lynch paid Lazard more than $1 million a year to steer business its way, wasn't fully disclosed to clients

The foundation of Lazard's muni reputation was laid by Felix G. Rohatyn. He played a key role in rescuing New York City from a financial crisis in the mid-1970s. Rohatyn remains an active Democrat but has had little or nothing to do with running the muni department.

At the time, Lazard functioned as a financial adviser, proferring advice to municipalities and helping them hire other Wall Street firms for underwritings. Rohatyn, who knew Del Giudice through Cuomo, referred Del Giudice to Lazard, which hired him in 1985. Unwilling to spend for a lot of additional staff, Del Giudice recruited big producers with political clout such as Ferber. Others were Grover L. McKean, ex-aide to former California Treasurer Jesse Unruh; Norman Steisel, the former New York City sanitation commissioner, who left in 1988 to join the administration of former Mayor David Dinkins; and Richard Poirier Jr., who built the firm's Southeastern business.

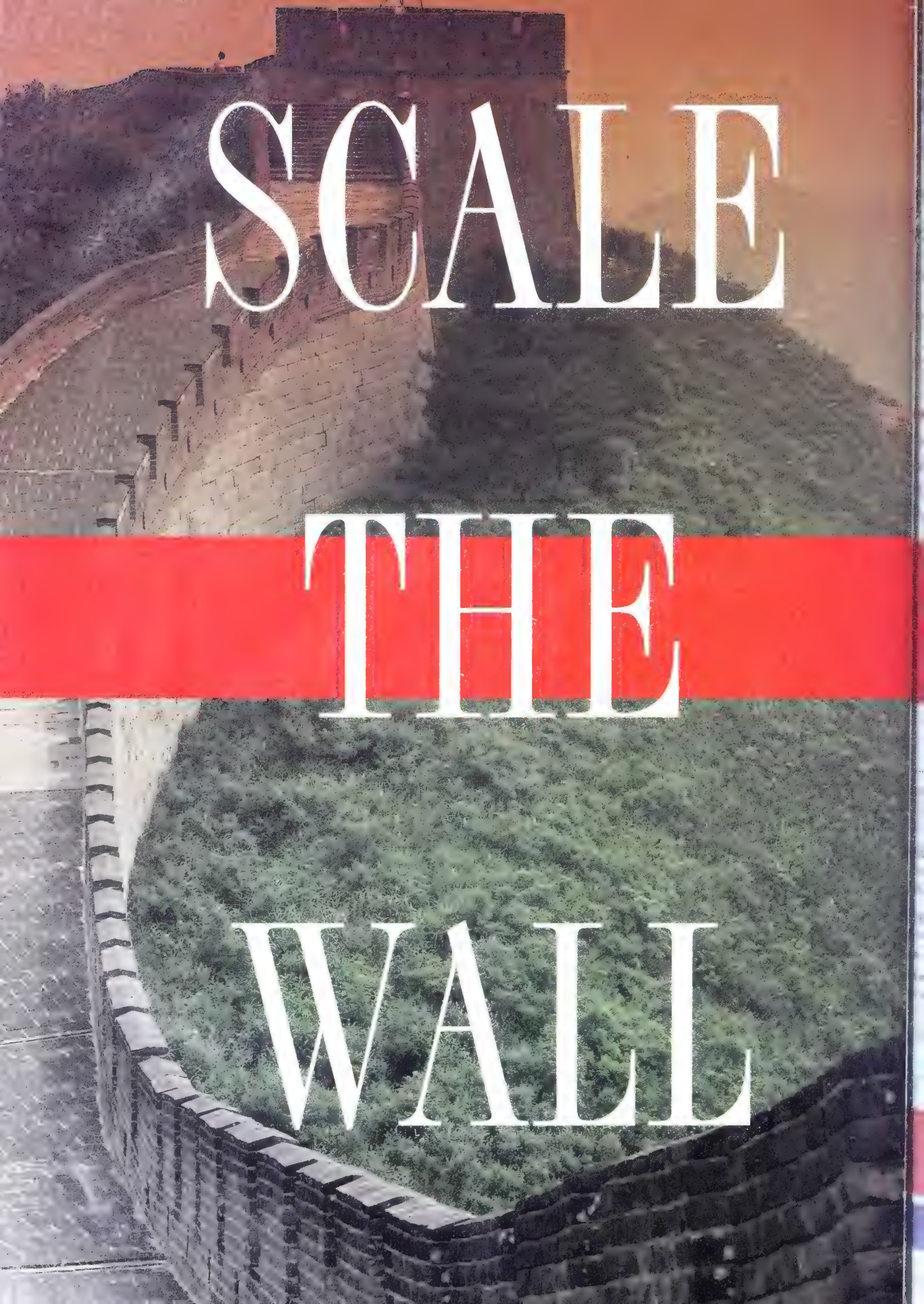
This strategy created controversy within the firm. Says one former Lazard muni employee: "I left because it became clear to me the firm would squander its reputation. I knew by virtue of the hires the emphasis was on the quick buck."

Under Del Giudice, staffers wrote checks for thousands of dollars to dozens of candidates, Federal Election Commission records show. Del Giudice headed Lazard's Political Action Committee, which disbanded in early 1993.

For a time, the strategy worked. Lazard went from 30th in muni underwriting in 1990 to 10th in 1992. It kept its position as No. 3 in muni advisory work in 1990 and 1992. But soon the firm was plagued by a rash of probes, including many with no connection to Ferber, from New Jersey to Los Angeles County.

Today, the firm is trying to put the whole muni mess behind it. Already, it's on the sidelines. This year to date, Lazard fell to 54th in muni underwriting and to 28th in muni advisory work, according to Securities Data Corp. The situation has deeply embarrassed the firm's investment bankers, who enjoy a pristine reputation in the corporate world. "Other than this area, they were very scrupulous," says someone with knowledge of the firm. "This is a major exception . . . like if you heard a bishop was going out with a prostitute." It will be a long time before Lazard attempts again to mix business and politics.

By Leah Nathans Spiro in New York and Geoffrey Smith in Boston, with Amy Barrett in Washington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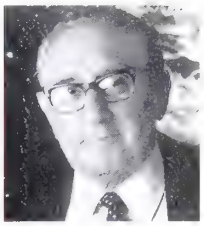

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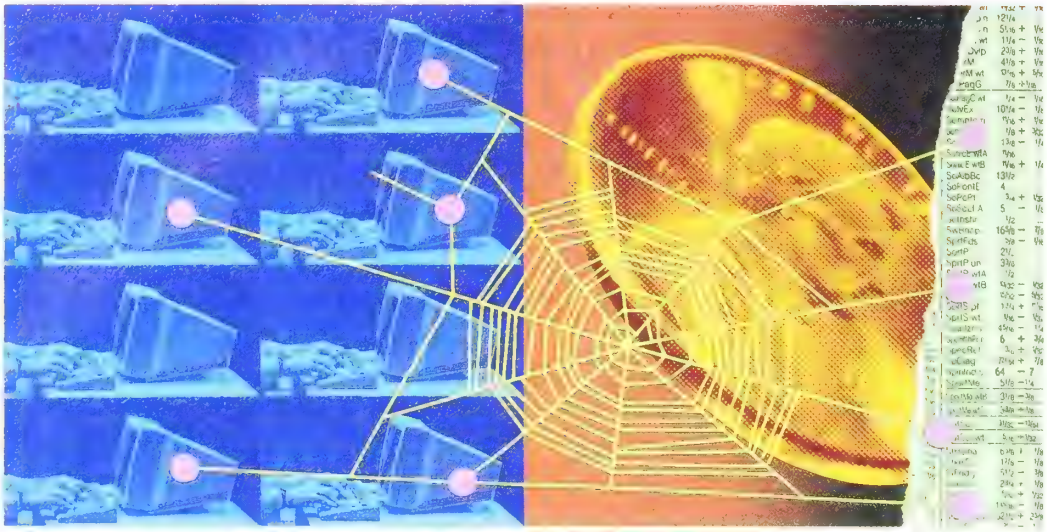

STOCKS

THE HUSTLERS QUEUE UP ON THE NET

Penny-stock scam artists are surging online

It wasn't too long ago that penny-stock peddlers inhabited the fringes of the online world—a newsletter here, a scattering of message bases there. Well, online trends move with the speed and power of a tsunami, and this one is no exception: Penny-stock hucksters have gone online, and in force.

Penny-stock promoters have spread well beyond the ubiquitous message centers, such as the Internet stock newsgroups and commercial bulletin boards, where stocks are frequently hyped. In just the past two months, dozens of World Wide Web sites have been organized by penny-stock promoters. And despite stepped up Internet-related enforcement actions, regulators find themselves hard-pressed to deal with them. "There's no doubt that the [Internet] is now the leading source of penny-stock promotion—it's just so easy for the penny-stock types to operate there," says Benjamin A. Lewis, a North Carolina securities investigator who heads a multi-agency Internet task force led by the North American Securities Administrators Assn.

To be sure, not all the penny-stock devotees on the Net are shady operators. Many of the postings in the Internet's Usenet message centers are from well-intentioned small investors and reputable brokerages and newsletter writers, such as longtime small-stock maven John Westergaard, who has established a Web site in recent weeks. But others are far more troublesome. Penny-stock newsletters, often resembling objective market letters, often provide little more than thinly disguised, paid advertisements for the companies they write about.

DUMPED. Stock hype is also growing ever more worrisome. Regulators and veteran Internet users say that "pump-and-dump" schemes are becoming rife on the Net's online message bases, notably the Internet's "misc.invest.stocks" and the new "alt.invest.penny-stocks" newsgroups. Notes James B. Adelman, assistant district ac istrator at the Secu & Exchange Com sion's Boston office used to be, you ha dial a phone hour hour to pump up a s Now, you just pay $ $30 a month to an I net service prov come up with an ex story, push a button you can be seer 100,000 people."

The "pump" sic pump and dump is evident among t traded stocks. Pron online by people ov the shares, the s rise and then are dumped, causin share prices to fall. It's a high-tech off on the old penny-stock boiler r which have largely become a thi the past. Bapcha Ramamurthy, year-old semiconductor designer ir ifornia and longtime Net-watcher, that trading of several small stock been sustained by promotion o Net, particularly computer issue Canadian mining issues.

PAID FOR. A good example is Com Concepts, a Bohemia (N. Y.) soft designer. Shares climbed as high in June, partly because of ener postings on the Net, a Computer cepts executive acknowledges. Ed Warman, Computer Concept's utive vice-president: "That's unders able—we make a product that is h ly used by techies, and we mak software available on the Web." stock has since fallen to $1.50. Wa says the company was not respo for any postings affecting share p

Another stock with an injection o adrenaline is the Dallas software r Camelot Corp. Like Computer Con it rose through the summer on a w favorable Net postings, only to fall than 30% from its $7 high. The cor is still a mainstay of penny-stock vens on Prodigy's Money Talk Bu Board. "CAML-NEWS TONIGHT!!!" w title of one typical posting recent Prodigy, which recounted in length tail the contact between a Prodigy and Camelot officials, including chi ecutive officer Daniel Wettreich. A lot spokeswoman says online po have been but one of many factors encing the share price.

Prodigy and the newsgroups a the only places where Camelot is h It is a top pick of one of the lates nomena in online stock hype—the

INVISIBLE Stock pushers don't know who's out there, and regulators are increasingly computer literate

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ny-stock letter. Ex-broker Rob Pittenger's *Market Success* Web site features Camelot prominently in his latest issue. But although the penny-stock letter boasts it provides "Quality Research for the Small Cap Market," it is actually entirely paid for by companies. "I seek out good companies, go out and write a report for them to use in their investor relations," says the Omaha-based Pittenger. The fee varies, but averages about $1,000. Companies pay an additional $250 a quarter for updates.

ONLINE COPS. Penny-stock letters like *Market Success* are not a new phenomenon. But the Internet is giving them exposure and credibility never before seen. Pittenger says it has increased his access to potential clients. "I tell them I write research that appears on the Internet. They're almost afraid to say no," he says. So far not a single company has refused his request for access. Likewise, the Net has become a bonanza for Pennsylvania-based *Global Markets*. Like *Market Success*, it has been online for only a few weeks. Indeed, the latest issue features a single stock, biotech outfit Quigley Corp., which trades at about 13¢.

Global Markets is the brainchild of Richard A. Sauers, 44, who has written a print version for 12 years. His method of finding and writing about companies is simple. "If I see a company I like, I write about them. I show it to them, and if they like what I wrote, I ask if they want to become a sponsor," says the Morrisville (Pa).-based Sauers. "Sponsors" pay for mail distribution of that issue of the newsletter, which, he says, goes out to 10,000 off-line subscribers. He says about a quarter of his featured stocks involve subsidies.

PROMOTER SAUERS: *Companies "sponsor" his newsletter*

Like most Net-based investment mavens, Sauers and Pittenger are not registered investment advisers. "I don't make buy and sell recommendations," says Pittenger. And regulators say that they are generally reluctant to prosecute newsletter writers because of possible First Amendr issues—even when do not assert, as n do, that they are j nalists. "The main ger to investors is they don't know they're dealing w notes National As ation of Securities I ers Executive V President John Pin

But the opposit also true. The sc sters don't know they're dealing wit ther. The regulators out there, and are growing increasi computer literate. Indeed, the NASD covered, and sent on to the SEC, a p bank fraud case uncovered by the hours online perusings of one of its pliance officers. The SEC moved fa bringing a court action only a m after the alleged fraud was uncove But it will take a lot more prosecu before "caveat scamster" becomes operative term online.

By Gary Weiss in New

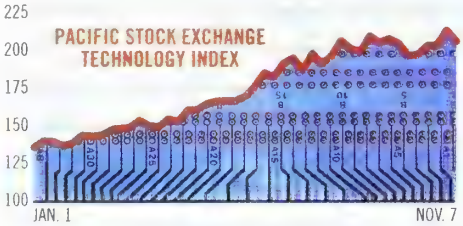
MARKETS

DIVINING TECH'S FUTURE FROM THE MARKET DATA

Technical analysts say the sector is strong in the long term

Negative divergence. Reaction lows. Support levels. They're not the usual terms you hear from technology stock analysts. But then, this jargon didn't come from your usual analyst. It came from Wall Street's technical analysts, who don't care a whit about the latest earnings, takeover rumors, or profit forecasts. Instead, they pore over reams of market data to divine where stocks are going. And here's where their data are pointing them.

A BUMPY ROAD



DATA BLOOMBERG FINANCIAL MARKETS

Most technical analysts are positive on the long-term outlook for the tech sector. But they say semiconductor stocks may stop moving in tandem with the rest of the sector, especially the high-flying networking and software stocks. Indeed, some say the short-term picture may be bleak for semiconductors.

On the surface, Nov. 7, Election Day, looked like a "no" vote for semiconductor stocks. The Philadelphia Semiconductor Index had its heaviest one-day volume on the downside since its launch in May, 1994. "But if these stocks were going down a lot from here, they should have been down a lot on Nov. 8, and they weren't," says Frank L. Teixeira, vice-president of market analysis for Merrill Lynch & Co. "Semis didn't hit a new reactionary low," he says. "Short-term, you still have to repair the damage to the group. But you haven't brok- en the long-term uptrends in a g majority of these stocks."

Stephen Shobin, Lehman Brot Inc.'s technical analyst, agrees. Bu thinks there may be more short- slippage in semiconductors. Investo timism is a counterindicator for te cians. And Shobin points to what's pening in the options market bearish sign. The volume of call opt which are bets on rising stock pric way up on semiconductors, he say some technical analysts, this means conductor stocks are on the way d

AMAZING RUN. Shobin also points rotation among technology stocks. the whole tech group has been risi one giant wave over the past few y "performance has become fragme and selective," he says. He is positi the networking stocks such as Systems Inc. Networking stocks "c ue to look dynamic and powerful appear to have higher price targ says Shobin. A pickup in put activ bets that prices will fall—has foll every pullback in the price of netw ing stocks, he says. "From a contr standpoint, that is bullish," says Sh

Tech stocks have had an amazing ple of years. If the technicians are semi stocks could be in for a rough But for the rest of the tech sec short breather may be just wh needed to fuel another long-term

By Suzanne Woolley in New

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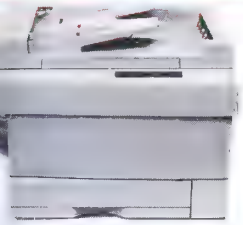

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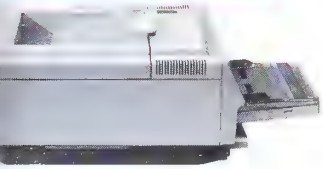

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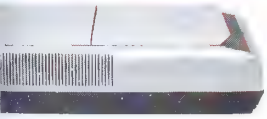

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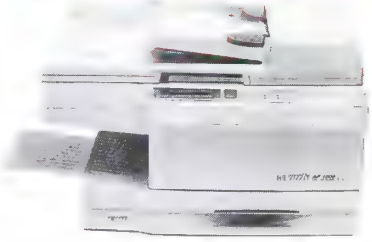

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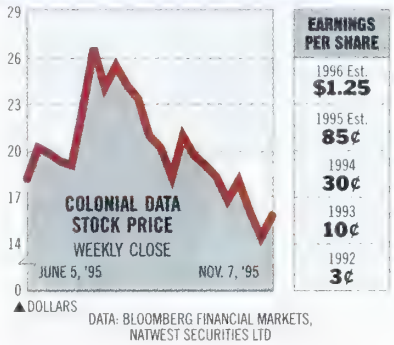
BY GENE G. MARCIAL

WHO'S THAT CALLER AT COLONIAL DATA?

Record earnings are no shield against a stock drop. That's what Walter Fiederowicz, chairman of Colonial Data Technologies (CDT), found out: On Oct. 28, he reported third-quarter earnings of 23¢ a share, vs. 9¢ last year. Still, the stock fell 1½, to 16⅞, and has been under pressure since. Why?

The report came as the Street worried about increased rivalry from big outfits starting to put out caller-ID phone gear. Colonial introduced the first commercially available device in 1987 and, in 1990, the first unit to show both name and number. Now, AT&T, Philips, Sony, and Northern Telecom may muscle in. And a company called Cidco competes directly with Colonial for market share.

BIG GUNS MAY ROLL IN



DATA: BLOOMBERG FINANCIAL MARKETS, NATWEST SECURITIES LTD

Even so, some smart-money investors upped their holdings of the stock—as it kept sliding. Talk is that Colonial has negotiated a merger or a strategic alliance with a European telecom giant, a deal expected to be announced in a few days.

The European company, with big operations in Latin America too, will acquire a bigger stake in Colonial—if it's a strategic partnership. In a full merger, there would be a stock swap. Any such deal, says one money manager, would let Colonial widen the overseas market for its equipment—to Japan, the rest of Asia, and Latin America.

Colonial equipment lets phone companies supply customers with intelligent network-based services. Caller-ID provides information about incoming calls—date, time, caller's phone number, and in some cases the caller's name. By early 1996, Colonial will introduce its Smart Telephone, which can be used like a computer for access to information and services, such as banking and shopping.

Colonial has strong ties with such customers as U S West, Nynex, BellSouth, Bell Atlantic, and Ameritech. Analyst Eric Zimits of Volpe Welty in San Francisco says Colonial is busy working on linking up with more phone companies.

Analyst Bill Vogel at NatWest Securities thinks Colonial is worth 30 a share, based on a price-earnings ratio of 25 times his 1996 estimate of $1.25 a share. "Our confidence in the forecast is based on the established resolve of the Bell companies to increase the caller-ID business," he explains. The Bell companies are committed, he adds, to reaching 30% of potential customers by 2000. As of June, U. S. market penetration was only 7%. Unit increase in caller-ID devices in the first half of 1995 was more than 100%.

Colonial revenues in the first half grew by 149%, while earnings per share surged 322%. For next year, Vogel sees revenues climbing to $117.3 million, up from an estimated $73.5 million this year, and $36.8 million last year.

BRIGHTER GLOW AT PACIFIC SCIENTIFIC

Pacific Scientific (PSX) may evoke images of exotic expeditions. Don't be fooled: The Newport Beach (Calif.) maker of electrical equipment has proprietary knowhow that makes it a leader in niche markets closer to home. It makes electronic lighting-control and safety devices. Some investors say Pacific Scientific has attracted much larger players.

"Informal talks are going on between Pacific Scientific and companies eager to buy its technology—or the entire company," says investment adviser John Westergaard. Among other things, Pacific makes advanced controls for fluorescent lamps—smaller and longer-lasting. Also, the company's new Sense-a-Volt technology automatically adjusts to any line voltage between 120 and 277, explains Westergaard. This allows lighting fixtures to be used anywhere in the world—a boon to manufacturers. Pacific Scientific has received orders from major retailers for the new products, says Westergaard.

He figures Pacific Scientific, now at 24 a share, will hit 40 in 12 months, mainly because of its Solium line dimmable and three-way controls. T gear, first shipped to customers in S tember, will boost sales and earni Westergaard thinks 1996 estimate $1.60 a share are low: "We look fo next year," he says. In 1995, anal expect $1 a share.

A FRESH ROUND IN THE PAPER CHASE

New takeover talk keeps bubb up—even as International Paper nounced its $2.7 billion buy of Fed Paper Board on Nov. 5. A new tar Consolidated Papers (CDP), a make printing paper and lightweight co packaging paper, currently at 6 share. A New York investment ba says the buyout price being bru about is 90—and the likeliest buye Union Camp (UCC).

He thinks Union Camp is eyeba Consolidated. Melding the operat would create a more efficient and m profitable papermaker, says one ana

Union Camp makes mostly pac ing paper—uncoated white paper, k paper, and linerboard, plus buil products and specialty chemicals. U Camp posted sales of $3.5 billion year and is expected to do $4.3 bi this year and $4.5 billion next. Con dated Papers' projected sales for year are $2.1 billion, up from this year's estimated revenues of $1.6 billion and 1994's $1 billion.

LOOKING FOR PAPER PROFIT

DATA: BLOOMBERG FINANCIAL M

Currently, Consolidated Papers is the owner of 670,000 acres of timberland in the U. S. and Canada, and Union Camp owns or controls 1.6 million acres in the Southeastern U. S. A Union Camp spokesman says: "We are always looking at tions to make us grow." Whi spokesman at Consolidated says: one has approached us."

Insiders at Consolidated hold si chunks of the stock: The officers directors, including Chairman Ge Mead, own a total of 35% of the sh Such a situation usually makes it er to negotiate a buyout.

s

HE RALPH LAUREN F CAR DEALERS

d Rover Centres sell boots, safari suits–and yes, cars

s Roger Gordon and his family ascend a steep, rocky hill that pitches the four-wheel-drive Land Rover carrying them at a gravity-ıg angle, his children cheer wildly, ife screams, and Gordon breaks iddy laughter. And a Land Rover nan behind the wheel smiles. The as been made. "It was amazing," ls Gordon, 39, the proud new own-a $38,000 Land Rover Discovery. ids thought they were on a roller r."

s unusual test drive did not take in some wild outback. It unfolded 5-yard, off-road course construct-the parking lot of a Land Rover ship on Long Island, N. Y., about les from Manhattan. It is here at Rover Massapequa, and at 24 oth-ver dealerships, that the British of luxury sport-utility vehicles empting to redefine how cars are Car buying "is literally the most le retail experience any customer nagine," says Charles R. Hughes, ent of Land Rover North Ameri-Why not make it easy, and why not make it fun?"

RETAILING ROADMAP ? At a time when cars can be bought anywhere, experts say such bold experiments are key to holding on to customers

To inject a little enjoyment into that high-anxiety experience, Hughes is asking his 93 dealers in the U.S. to erect multimillion-dollar automotive boutiques known as Land Rover Centres. Sales staff dress in khaki safari garb and are trained to avoid high-pressure sales tactics. The stores look and feel like exclusive Ralph Lauren or Burberry's shops. "If you want a really good mountain bike, you don't go to Wal-Mart. You go to a specialty store," Hughes says. "We're creating an environment that reflects a lifestyle."

FANTASY SET. Inside the airy, hunter-green-and-beige Land Rover Centres, $30,000-to-$65,000 vehicles rest on slate-and-wood floors, accented with compass markings. Nearby shelves display Land Rover Gear, a branded line of shirts,

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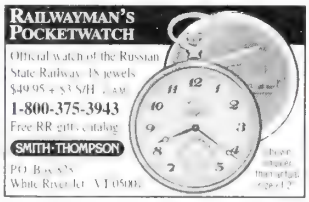

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gloves, sweatshirts, and coats. "After buying a car, people will drop $1,000 on boots and clothing," says Bryan Lazarus, who, along with his brother Michael, owns three Rover Centres on Long Island. A ledge along the ceiling of the Massapequa Centre brims with artifacts of the country gentleman—bridles, saddles, fly rods—while videotapes of Rovers taking on the wilds of Africa play on a large-screen television. The decor is pure fantasy, of course: Fewer than 5% of four-wheel-drive vehicles ever leave the pavement.

Unorthodox? Certainly. But retailing experts say such bold experiments are crucial to pull car-buying away from its 19th century horse-trading traditions. At a time when cars can be purchased anywhere from the Internet to warehouse clubs, analysts warn that dealers need to innovate if they hope to hold on to their customers. The Rover concept combines the pampering of a Lexus store with the enthusiasm of a Saturn retailer and the merchandising of a Harley-Davidson outlet. If it succeeds, it could provide a roadmap to the future of upscale car-selling.

Rover, which established an American dealer network only eight years ago, desperately needs to fortify its turf in the imported luxury sport-utility vehicle market. Since introducing the popular Discovery model in 1994, Land Rover has seen U.S. sales soar 78% so far this year on sales of 13,384 vehicles. That makes Land Rover America's top choice in its category, but its dominance is about to come under attack. Over the next two years, Acura, Lexus, Infiniti, Mercedes, and Lincoln are wheeling out their own luxury f wheel-drive vehicles. Even L Rover's new corporate parent, BMV scheduled to field a competitor in 1 "It's very important for Land R to use this Centre concept to diffe tiate its brand from the competiti says Christopher Cedergren, an lyst with AutoPa Group Inc.

To do that, R is aggressively panding the line, with plans add more outdoo cessories like ut knives. It's also l ing at an in-sh room travel ser and a mail-order log. The fashion business can stretch for a carmaker. Like plent other apparel makers before it, R tripped up early on the matter of lines. One Land Rover denim skirt so long, women had a hard time cl ing into their trucks. Still, Hughe mains upbeat. "Gear can be a d oped into a meaningful sourc revenue," he says. "Harley didn't

THE COMING TRAFFIC JAM

Land Rover braces for intense new competition

VEHICLE	LAUNCH DATE	EXPECTED PRICE
ACURA SLX	January 1996	$23,000 to $30,000
LEXUS LX 450	Spring 1996	$50,000 to $55,000
INFINITI T30	Late 1996	$35,000 to $45,000
MERCEDES-BENZ AAV	Spring 1997	$35,000 to $45,000
LINCOLN NAVIGATOR	Spring 1997	$40,000 to $43,000
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DATA: AUTOPACIFIC GROUP

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money on the first T-shirt they s

But Long Island Harley-Davi dealer Martin Altholtz doubts Rover will ever affix its plain oval to as many items as the famed H wings, which now grace $180 steins, $50 fuel-tank cookie jars $285 ceramic motorcycle figurine of which can be displayed in a $ Harley curio cabinet. "Are people to tattoo 'Land Rover' on their bo wonders Altholtz. "I don't think s

Of course, plenty of people still to dealerships in search of a deal. Robert Daino shopped at the $3.8 lion Massapequa store recently, h not interested in ambience or pi up a polo shirt. He wanted a ba "I'm going to talk to some le firms," he said, as he left the C "By going through fleet buyers, I over $100 a month on the lease f BMW 525."

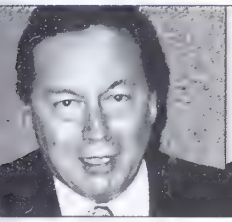
HAGGLING ROOM. Land Rover c ered adopting Saturn's one-price when it was coming up with the tre concept in 1990. But the no-h approach wouldn't fly with dealers say they need room to negoti above and below sticker—when d in hot-selling $40,000 sport-utility cles. "There are clear-cut advar to the customer when they are a ting the same price," says Hu "But how do you administer som like that in a market based on s and demand?"

Hughes has managed to co only about a quarter of his U. S. ers to build Centres. Rover of hope that will grow to half next The Lazarus brothers recently o the country's largest Land Rove tre in a converted Chevrolet d ship in Glen Head, N. Y., and the another one in the tony res Southampton. But the company force independent franchisees t struct the costly stores. "As a m ing ploy, this is very clever," sa Orme of the National Automobile ers Assn. "But sport-utility ve are selling without any problem tra expenses."

Roger Gordon enjoyed his ti the Land Rover Centre so much week later he was back, picking Land Rover money clip, key fo tire cover. "If they came out wit Rover luggage, I'd buy it right n gushes. For auto dealers like Lan er, the key to keeping customers back could have as much to d hemlines as horsepower.

By Keith Na in Massapequ

Want To Know Where Brazil's Economy Is Headed? Ask The People Who Are Taking It There.



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Special Report

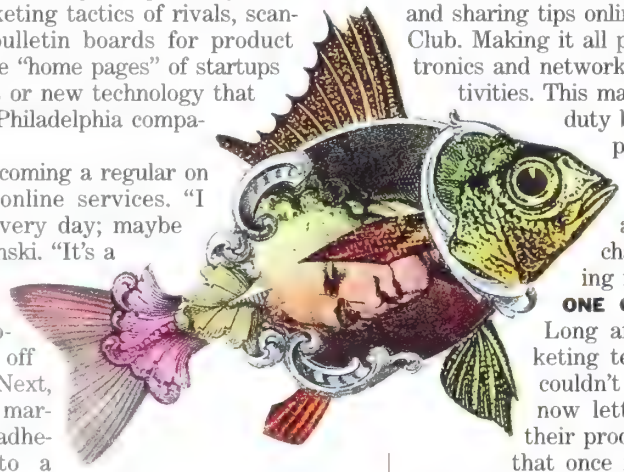
SMALL FRY GO ONLINE

Technology lets even tiny businesses outmarket the giant

Bill Tuszynski doesn't fancy himself a techie. But as manager of new-business development at privately held Inolex Chemical Co., he is spending a lot of time in front of his personal computer, prowling the Internet to monitor the cybermarketing tactics of rivals, scanning chemical-industry bulletin boards for product ideas, and checking out the "home pages" of startups that might have materials or new technology that jibe with the $40 million Philadelphia company's business.

Little by little, he is becoming a regular on the Internet and other online services. "I can't say I'm browsing every day; maybe once a week," says Tuszynski. "It's a heck of a lot easier than going to conferences." Tuszynski's electronic sojourns have already paid off in prospective customers. Next, he hopes to expand the marketing of Inolex' foams, adhesives, and lubricants to a World Wide Web site.

Another champion of marketing technology is Richard A. Penn, vice-president for finance and operations at $20 million Puritan Clothing Co. of Cape Cod. A grandson of the store's founder, he set up a database to track store sales and coordinate customer mailings. Now, he's learning to identify big spenders and regularly engage them via personal mailings and special events such as private showings. Surrounded by department-store chains and discounters, Puritan regards the new technology as a key defense. "You have to have this information to be in the ball game today," says Penn.



Using massive databases and the Internet, entrepreneurs can swiftly change plans and target new niches

All over America, small businesses are using inform technology once only available to big companies to be Davids of marketing. The savviest are setting up databas remember customers' favorite foods or clothing desig and sharing tips online in an electronic version of the R Club. Making it all possible: the sweep of cheap digital tronics and networks into the core of everyday busines tivities. This may mean a cash register that does d duty by collecting customer names and b preferences, or software that crank thousands of personalized le overnight, or online networks tha as electronic conduits for selling chandise, exchanging knowhow, and sp ing marketing tips.

ONE ON ONE. It's trickle-down techno Long after major corporations mastered keting techniques that mom-and-pop comp couldn't match—let alone afford—technolo now letting small-business owners perso their products and services. Marketing data that once required million-dollar mainframes run on personal computers. That's how Puritan pra "relationship" marketing with mailings to 2,000 custo Where rivals may blanket customers with cookie-cutter ings, Puritan's come with a personal note signed by the associate. "It's one-on-one vs. the mass market," says I

All told, these technologies and services are letting sm research new markets, test their ideas, and build close t customers. Underpinning it all is "a convergence of co nications and database technologies," says marketing cons Richard Cross of Cross Rap Associates, co-author of *tomer Bonding: Pathway to Customer Loyalty.* "The gration of database, Internet, and CD-ROM is where th breakthrough thinking is going on. The beautiful thing equally available to small and large companies." Adds I H. Schulman, AT&T's marketing vice-president for small ness: "Technology is going to become a tremendous equ Size will no longer be as important in determining m strength. Creativity and innovation are the main factor

In fact, with technology at their fingertips, entrepre may have an edge over corporate giants. Why? Entrepre can target smaller—and sometimes more profitable—n

HOW TO LAND CUSTOMERS WITH HIGH-TECH MARKETING

AILING LISTS ON CD-ROM

CD, Danvers, Mass., The list provides basic n 95 million homes and esses: Name, address, number, and SIC code.

ketplace, Dun & Brad-, Westport, Conn., $599 first 3000 names. An th list with thousands inesses.

NETWORK ON THE NET

- Use the Small Business Administration's online bulletin board: 800 697-4636, or Internet site: http://www.sbaonline.sba.gov.
- Check out local or industry bulletin boards.
- Look for small-business interest groups on America Online, CompuServe, Prodigy, and the Microsoft Network.

SEND CUSTOMERS THE FAX

- PCs with a fax card can be programmed to handle short lists. Use products such as QuadraFax for larger lists.
- AT&T, MCI, and Sprint offer volume faxing at a cost of approximately $175 to $250 per 1,000 pages.

GET THEE TO A HOME PAGE

- Create your own home page on the World Wide Web using such products as Quarterdeck's $130 Web-server software.
- Internet services from AT&T, MCI, and scores of small businesses provide a home page for $200 to $5,000, plus monthly service fees.

DATA: BUSINESS WEEK

swiftly change plans, and enter new markets. "Entrepreneurs now can see what's happening immediately," says Cross. "They don't wait for reports."

Of course, using technology to set and achieve marketing goals can also be a bit intimidating at the outset. But here's the good news: New software makes gathering and manipulating marketing information with an ordinary PC far simpler, "reducing the level of difficulty to something the principals in small business can do in an evening or on a weekend," says professor Stuart L. Meyer of Northwestern University's J. L. Kellogg Graduate School of Management.

Special Report

Just check out the huge variety of PC software available to build custom mailing lists. MarketForce, from Software of the Future Inc. in Arlington, Tex., lets companies manage t own direct-mail and telemarketing campaigns. And a gro library of market and customer data can be bought on ROM. Pro CD Inc., Database America, Cole Publicatio unit of MetroMail), and Dun & Bradstreet all sell na wide telephone listings on compact disks, including names addresses, for as little as $175. The CDs let you searc name, zip code, and, in some, by income or business typ your records are incomplete, list-matching software can the holes in partial records for about $300. A little work i quired, such as adding details included on the CDs.

PRICE BREAK. For small businesses that don't have the or inclination to cook up their own marketing setups, t are dozens of computer and software dealers to help. will rig up a computer with retail-sales-and-accounting p ages and preinstall the appropriate lists to get you sta Kevin Eldredge, presider retailing-systems sup Rapidfire Software Inc Beaverton, Ore., says so n list services have sprung u recent years that the lists cost as little as 2¢ a n down from 14¢ a name a years ago. "We tell our tomers to buy whatever like, and we'll convert the and put it on their system says. That lets stores as Mi Amore Pizza & P (see box) immediately b tracking customers and purchases just by asking phone number when custo call in an order.

Need to reach hundre fax machines overnight? now come standard with modems to zip off brochur product pitches. Until rece if a small business wante send thousands of overnight, it had to tur fax-broadcasting services cost 17¢ to 25¢ per fax. they can do their QuadraFax, from Brook Technology Inc., which sta about $3,000, allows custo to request fax-back inform on specific products—and be designed to blanket sands of customers with a pitch. What's more, it ca programmed from a PC.

The key payoff for a these tactics is to create of the best customers and figure out how to keep happy. That's the idea b so-called affinity campa such as frequent-flier prog that cultivate repeat bus by rewarding customer purchases. Now, small busi es in Omaha, Denver, Phoenix can buy this ki data-gathering and analysis service from U S West, th

MI AMORE PIZZA & PASTA

Cooking up a deep-dish database

Could any business be more low-tech than the local pizza parlor? Don't suggest that to Gary L. Mead, a trailblazer in Lompoc, Calif. Such giants as Domino's, Little Caesar's, and Pizza Hut have used mass marketing to gobble up nearly 48% of the $18 billion pizza business. But Mead is turning the tables, using database and direct-marketing technologies to personalize his marketing—and keep customers returning to Mi Amore Pizza & Pasta.

MEAD: *So who gets anchovies? His PC knows*

The 34-year-old restaurateur's secret: a marketing database that tracks customers and purchases. If regulars haven't stopped by in 60 days, his PC-based system spits out a postcard to lure them back with a discount. The $10,000 system even lets him practice "cross-selling" techniques—such as suggesting a new pasta dish to pizza lovers. Every Christmas, his database cranks out a list of his best customers for personally signed cards. "What we're trying to do is establish an individual relationship with each customer," says Mead.

WHAT RIVALS? Sound pie-in-the-sky? Since Mead bought the pizza shop in 1991, revenues have climbed more than threefold, to $1 million. His delivery database now boasts 8,500 customers—all in a town of just 11,000. What's more, the delivery business is rising 25% to 30% a year.

Mead caught the technology bug while managing a small group of restaurants. When recession struck in the late 1980s, the group's point-of-sale system couldn't even identify key customers. So Mead hunted for a package that did. He found it in a pizza-shop system sold by Rapidfire Software Inc. of Beaverton, Ore. Employees simply enter the phone number into the cash register and a computer automatically builds a database.

Next on Mead's techno-menu: an ATM-like card that awards points redeemable for food in the restaurant. The idea? To complement the delivery database with another database specific to the sit-down restaurant business. Customers receive a card in exchange for completing a survey with their names and addresses. Boasts Mead: "I don't pay the least bit of attention to the competition." Instead, count on the big pizza chains to start paying attention to his marketing tricks.

phone company. U S Marketing Resources has 2,000 Denver busi- paying as little as $3,000 for installation of equip- o track customers and e direct-mail services.

e's how it works: U S handles the customer g and target mailings to ales by issuing 800,000 e cards that provide a t when used with pur- at restaurants and re- Every month, sub- s receive a report on sers' zip codes, spending and sales histories. It he companies fine-tune ing by identifying the stomers and key groups et with direct-marketing ns. Wild Oats Communi- ket, a natural-foods chain ores in Denver and Boul- ys the program helped it store events to higher- ng customers. "We get feedback on who shops ," says Regional Manag- Ware. One result: Card- ' spending averages $41 vs. $15 for non-cardhold- says.

SYSTEM. Potentially, this ive mom-and-pop stores nce to pinpoint new cus- and create joint promo- the way Burger King alt Disney Co. teamed romote *Pocahontas*, for e. Now, cross-promotions local restaurants and houses for dinner-and- deals are easily stitched er, says U S West Mar- Manager Joy Barber: are cross-promotional unities that all the big ave been doing for a long time."

ver's Wishbone Family Restaurants Inc. is a convert to S West system. For 32 years, it relied on local ads and f mouth to build its $2 million business. Then, this owner Joseph Lochi shelled out $6,500 to equip his staurants with U S West's electronic card readers and se its direct-mail services. The result: He has seen $75,000 in new business this year from mailings to people who live in the area but had never dined at the restaurant until lured by the promotion. "We've got tremendous play from it," says Lochi.

U S West isn't the only giant corporation that's seizing the opportunity to generate business by selling big-league marketing technology to small business. IBM estimates that the 52 million small and midsize businesses around the world will spend $230 billion on information technology this year. In addition to buying thousands of PCs and scores of other products, IBM Chairman Louis V. Gerstner Jr. is convinced that in the future, small organizations will reap big rewards from tapping into Big Blue's online networks. "They can now go out and in effect rent an IT [information technology] infrastructure. They don't have to buy it," he says. "There will be network-based applications that they will be able to participate in that are the equivalent of large

REAL WORLD INTERFACE

The wide, wide Web: A cautionary tale

Grinnell More has seen the power—and pitfalls—of online marketing. This summer, his Real World Interface Inc., a $3 million Jaffrey (N. H.) maker of mobile robots, set up an Internet contest to build sales leads for a new product. The company ran a name-the-robot contest, offering prizes to robotics researchers who participated and submitted their names and net addresses. *Voilà*: a list of the best prospects for the company's $2,000 to $70,000 machines.

But the name-the-robot contest turned into a cautionary tale about how the Internet's free-sharing culture can undermine marketing schemes. Cybernauts, likely using search tools to scan for contests, found out about the offer, and soon details downloaded from the company's World Wide Web site were posted on a directory of contests on the Web. What started out as a focused marketing ploy quickly became a carpet-bombing by Internet cruisers.

SWARMS OF PUNSTERS. That wasn't the way it was supposed to work. More, working with online marketing consultants ActivMedia Inc. in Peterborough, N. H., had carefully set up the contest by posting electronic notices to Internet discussion groups specializing in robotics, artificial intelligence, and fuzzy logic—an area of AI dealing with imprecise information and useful in robotic vision systems. For a while, the contest worked perfectly—giving Real World a golden list of prospects.

Then, disaster. As news of the contest spread across the Net, Real World's Web site began attracting swarms of students, Ray Bradbury fans, and punsters. Overnight, suggestions tripled but also shifted to the whimsically clichéd, such as Fuzzy Wuzzy. "Most were more amusing than helpful," says More.

In the end, Real World got 350 leads. The robot became Pioneer 1, courtesy of a marketing consultant—not a researcher—who entered the contest. More plans to continue marketing over the Internet—after separating the sci-fi fans from the researchers. After all, he says, "there's no place in the world as well connected as the major universities." And there's no easier way to reach them than the Net.

MORE: *A focused bid drew an unfocused flood*

t to float a new product idea without ing for a focus-group consultant or ur-color catalog spread? Put it in an tronic catalog for a quick response

competitors' without making the investment up front."

Telecommunications giant AT&T has refined its approach toward small business, focusing on putting together packages of solutions—including an online network and Internet services. "We've seen a sea change in our customers over the past year," says AT&T's Schulman. He says more customers are asking for integrated services, more sophisticated products, and help in using technology to do things such as electronic commerce. "When we put on seminars, there is a tidal wave of requests on how they plan for the upcoming electronic-commerce era," says Schulman.

Special Report

On Oct. 18, AT&T launched a new program called Resources for Growth that helps businesses analyze and improve their return on sales and marketing and provides tips on expanding internationally. It includes reports on government regulations, shipping, and foreign distributors. Businesses can also purchase services such as language translation and travel services at a discount.

AT&T also has a service aimed specifically at startups. It includes things such as touch-tone access to a library of business-management and marketing information, discounts on office equipment, software, and payroll services, and savings of up to 80% on business publications. The entire service for startups costs an annual membership fee of only $99.

IN THE DOOR. Helping small businesses get hep to new marketing technology isn't just an opportunity for the giants. Nieto Computer Services, a Houston custom-software and computer-services company, developed an easy-to-use Internet package that links lawyers to key legal databases on the Internet. Rather than thumb through legal texts or pay paralegals to scour court decisions, customers can have Nieto's Lawyer's Link provide electronic access to federal and state tax-law databases, Supreme Court decisions, and commercial-law databases.

Nieto developed the product to showcase its software and network skills. "This package gets us in the customer's door," says co-founder Scott Mt. Joy. Once there, the company can pitch its Internet "home page" development services, technical consulting, and programming skills. It works so well with law firms that the two-man company is at work on another industry-specific service—this one to collate Internet information sources for the oil industry.

A surprising bounty of marketing information can be culled from commercial online vices. Prodigy Services Co. provides access to a Dun & B street Corp. business database of private companies and fessional offices. In-depth reports are about $2.50 each. up-to-date, financial details on public companies? America line provides company histories and financial data via Hoo Handbook On-Line Service. And complete Securities & change Commission filings are available free over the Inte

Online searches are changing the way $1.5 million Pac Inc. finds new customers. The San Diego electronics com now taps into an electronic version of the bible of govern procurements, *Commerce Business Daily*. The printed ve is unorganized and may take days to reach the desks o ecutives. But the online version is there in a snap and contractors find leads using keywords, says Pacifitek President Jeff Stratton.

Online services, including CompuServe and the Micr Network, are rapidly building small-business resource are

UNDERCOVER BOOK SERVICE

Close your stores, double your customers

Joel C. Turner had never heard of the cookbook his customer wanted. So the bookseller popped a CD-ROM version of *Books in Print* into his computer to search for wild-game cookbooks. The title was out of print. But Turner, who shuttered the last of his three book shops in the Cleveland area four years ago, printed and faxed back a list of eight other books. He sold all eight.

TURNER: *Sidestepping the superstores*

Meet the business that technology reinvented. Recognizing that his small chain couldn't keep up with the new superstores in selection or atmosphere, Turner made a bold bet on direct-selling to consumers and businesses willing to pay a premium for top-notch service. Housed in Turner's home in Shaker Heights, Ohio, Undercover Book Service now has four employees and a tangle of computers and communications gear. They rely on reference CD-ROMs, online networks, and fax machines to take orders.

How did it happen? Turner replaced retail customers by using Dun & Bradstreet Corp.'s Marketplace, a CD-ROM of business addresses and names. It allowed him to seek out co panies looking for dividual service an forget about all th folks looking for atmosphere.

NEW PUSH. Now, c porations such as Rubbermaid Inc. c Turner when they want the latest bu ness tome—pronto "I like to say I closed my stores i order to take care my customers," sa Turner.

He has doubled customer list to n ly 10,000 since 199 What's more, Turn has maintained re nues despite the l of retail sales. Instead of costly inv tory, he maintains computer links to publishers and dis tributors to place orders. And Turner's reputation for turning up hard-to-find books often wins him referrals from superstores such as Borders Inc. or Barnes & Noble Inc.

Now, Turner is ready to enter cyber space. He already uses CompuServe I online network to reach customers in Britain. This month, he plans to add a home page on the Internet. "I don't w people to say, 'We used to use you, bu I'm online a lot now,'" says Turner. Th the essence of good service: available where, anytime.

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disseminate information once available only to big companies. Market researcher Interco Corp. in Norwalk, Conn., estimates that 22% of online users now tap such extra-cost services, up from 16% a year ago. "If you're a little bit savvy and familiar with online-research techniques, you can go a long way," says Interco research analyst Mark Snowden.

Special Report

The Internet and online services are more than electronic libraries and a place to hang your home page. Want to test a new product idea without committing to a big purchase? Put it in an electronic catalog and test the response. TSI Soccer Corp., a $20 million Durham (N. C.) sporting-goods catalog company, uses an electronic version of its catalog to test-market ideas and trends before a slice of its customers. "We can do things with a Web catalog that we couldn't do with paper," says Robert Brown, TSI's director of international sales. What things? Experimenting with gear from unt suppliers, say, or posting updates to the printed catalog. I inventory of a certain brand of jersey arrives after the log ships and TSI discovers the shirts run large, it can p notice online, thus reducing costly returns.

Want to run a focus group in a new market but have the money to hire consultants? Find a bulletin serving your target geographic market or post requests newsgroup where you think you're likely to find the kind of prospects. The Internet is currently awash in co designed to collect E-mail addresses and profiles of net denizens—but you have to cast your net carefully (page

AGILE. The bottom line is that online services are levelin barriers to reaching mass markets for small companies, David L. Birch, president of small-business researcher netics Inc. With millions now connected to online services as AOL, Prodigy, CompuServe, and the Microsoft Net company size becomes irrelevant to delivering a new pr or service, he says. "Fr marketing point of view just as good as the giant better, because I don't ha go through 38 committe move quickly and reach a group of people," says Bir

On the Net, tiny TSI like one of the big boys. company uses its electroni alog to foster an image savvy soccer insider by do space on its World Wide site to a fan club of the National Soccer Team an ing scores of Japanese games. Both moves enco regular visits to its elect catalog and burnish the co ny's reputation, says Brov

Never done market res before? Hundreds of comp conduct electronic inform searches, market studies analyses using online netw Houston's Research On International Inc. uses t ternet to gather data fo tom market studies and petitive analyses costi little as $500. "The Inter bringing the price of inf tion down," says Res On-Line President Jon Lack, whose company helped small businesses marketing campaigns o Internet.

Whether hunting for business, checking out the petition, or launching a tomer promotion, small-bu owners are no longer te logically challenged. Now technology available equa small and big companie race can go to the fleet foot—and not always to t test of wallet.

By Gary McWil in Ho

INTERCONTINENTAL FLORIST

Business is blooming, thanks

It was the bonsai problem that proved the value of telemarketing for William J. Marquez. The Orlando florist recently bought 10,000 bonsai trees, thinking he could leisurely sell them through his catalog. But he discovered that the diminutive trees require costly care, such as thrice-a-week soakings. If he couldn't move them fast, he would lose money on the trees.

MARQUEZ: *The Net helped him snag those his ads missed*

So Marquez put all of his electronic outlets to work. He cranked out a barrage of faxes to clients, used an 800 number that promotes discounts—regulars know to call for his specials—and promoted the tiny trees through an electronic catalog on the Internet. Two months later, Marquez is breathing a sigh of relief: "We were able to make a profit and, at the same time, acquire new customers."

NATIONAL EXPANSION. This is a business that technology has helped cultivate. In 1993, Marquez, a former travel consultant, acquired a low-tech florist shop doing $144,000 in local sales. He used technology to refocus it on nationwide sales, relying on MCI Communications and telemarketing consultants to advise him. This year, sales should hit $11 million, and Intercontinental Florist Inc. is anything but local. Even though he has expanded to five stores in the Orlando area, 90% of sales come from outside Florida.

The key is constantly building a list of solid customers. Today, Marquez can reach up to 25,000 businesses overnight using a fax service. Using detailed logs of sales via 800 numbers, Marquez can quickly redirect advertising to markets where response is highest. A dedicated nontechie, he went on the Internet in March to reach people who wouldn't see his catalogs or ads. After spending about $15,000, "we just started to break even on the Internet, but it's way ahead of projections," says Marquez.

Next up, he's planning to couple his telemarketing to a nationwide database of telephone numbers. The database offers a way to track customers automatically. "At the rate we're growing, this could be a $100 million business," says Marquez. From an electronic seed, big flowers may now bloom.

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EDITED BY AMY DUNKIN

BEFORE YOU DOUBLE UP ON DEGREES—THINK TWICE

Getting an MBA from a quality institution can be a two-year battle. So why would any sane individual want to endure what might well be called an MBA for masochists—a joint-degree program that will allow the truly ambitious to earn two advanced degrees simultaneously?

With the hunt for MBA students ever more competitive, business schools are aggressively expanding joint-degree offerings in hopes of attracting hypermotivated people eager to complete grueling courses of study. By doubling up, students can earn two degrees in less time than it would take to gain them separately. They can also chop off about a year's tuition for the second degree.

SCRUTINY. Besides the more typical programs that grant a degree in law or medicine along with an MBA, schools are creating a variety of new combinations. MBAs with manufacturing, nursing, or environmental studies are among the most recent combos, reflecting the growing concern with the business side of these fields. The University of Southern California has come up with one of the quirkiest: an MBA with a PhD in dental surgery.

Before you even consider a dual degree, be forewarned that such programs require far more effort than a straight business diploma. Indeed, simply getting accepted to such programs can be a chore. Most universities require students to apply separately to both the business school and the second school of interest. Admissions directors heavily scrutinize those applications. "We are much more critical of a joint-degree applicant's motivation," says Steve Christakos, director of admissions at Northwestern University's J. L. Kellogg Graduate School of Management. "We want to know why they want both skill sets. On placement, I think companies are doing the same thing."

Once through the doors, you can expect to pay plenty for the privilege of working yourself silly. At Harvard University, it costs $85,960 and four yea study to gai MBA with a la gree, almost as much as ar alone (but $2 less than if earned them s ately). It mu noted that joint-degree t require one, tw even three years to com than the conve al two-year forcing joint-d seekers to pay in tuition along the cost of lo year or mo work.

GRILLING. If think such a investment wi you a higher-p job, think again. starting salaries of joi gree graduates are more than those of the gle-degree MBA counter according to placemen cials. This year, three joint-degree graduates eight registered their ing salaries with the U sity of Virginia's D School of Business Ad tration. The average: $ nearly $6,000 less th average fetched by Da MBA grads.

While some student tend that an extra broadens the range of tunity for employment, have to justify to rec why they bothered goi a second diploma. "Y grilled harder in some views," says Arlene H who is entering her and final year of a jo gree track in busines law at Duke University

EDUCATION The huge investment in getting a master's/MBA won't guarantee better pay or more job opportunities

nd up spending a lot explaining to recruit- you're getting both ."

s not surprising since pply of joint-degree es is still low: Only a dred students are en- these programs na- . Stanford University out just 26 graduates al degrees this year. estern University ed 11 students, up e in 1990.

IONS? A recruiter at ey, which typically the largest starting- ckages in front of ys that, at best, joint have a "neutral to positive" effect on the ng firm's choices. She at regardless of de- l campus hires enter pany at the same sal- there is no evidence ate that joint-degree get promoted faster higher positions.

grads, after being in rkforce for a few ften find a combina- gree overkill. "Quite , where I am right kind of like driving a h a sledgehammer," vid Donaldson, owner Bysiewicz-Donaldson in Manchester, Conn., 987 graduate of the law and business "If I knew in 1983 be running an insur- ency in 1995, I prob- ldn't have gotten the egree."

ny would anyone go the trouble? "Getting degree is confining," Joel Tauber, a South- ich.) manufacturing neur who received MBA and law de- m the University of . "It does not give ability to broaden izon." Tauber recent- ed $5 million to the y to launch a manu- institute that inte- n MBA with a mas- engineering or uring. Michigan now MBA-combo degrees, 14 five years ago.

But many grad students enter dual programs as a shortcut to gaining two diplomas. Schools generally shave credits off of their MBA curriculum and the second degree, allowing students to gain a pair of advanced degrees while shortening their academic stints by a year. At the same time, the most successful programs integrate the curriculums of the two schools, letting faculty from both disciplines work together to create innovative courses that merge the two fields.

Sometimes that collaboration really pays off. Bentley Kerr, who received his MBA and master's in real estate development from USC this past spring, is working for a diversified real estate company in Brentwood, Calif., and making about 15% more than the average starting salary for USC's MBA graduates. Kerr, who is one of only three 1995 USC graduates with the MBA and real estate joint degree, says he beat out MBAs from Stanford University and the University of California at Los Angeles for his job because his employer "valued the second degree. My course of study opened up a whole new set of opportunities." Carlton Harris, who graduated from Duke in 1980 with business and forestry degrees, got five job offers directly after school and attributes his first promotion in 1983 and 15 successful years with Scott Paper in large part to his joint degree.

PRIORITIES. Still, working on a pair of degrees at once is daunting. Paul Hardy, who is now entering his third and final year of an environmental sciences joint-degree program at Michigan, tackled a full load of MBA courses last year along with 27 hours each week devoted to teaching and research at the school of natural resources. "It has always been too much, but it has never reached the point where I felt like bowing out of the program," Hardy says. He's sticking with it because he believes the extra degree will help him advance more quickly in the environmental field.

Things may not work out the way Hardy hopes they will, however. Administrators and graduates say those seeking a second degree largely to beef up their résumés or fast-forward their march through the corporate ranks have their priorities wrong. "I don't think the extra credential makes it worth it. I think the extra knowledge does," says Michigan Business School Dean B. Joseph White. If you're in it for the added material rewards, you're probably wasting your time. *Elias Levenson*

An MBA with a Master's on the Side

SCHOOL/CITY	SECOND DEGREE	YEARS	TOTAL TUITION	DESCRIPTION
COLUMBIA U. NEW YORK	Master of Science, Journalism	2.5	$43,519	Requires 45 business credits and 30 in journalism
DUKE U. DURHAM, N.C.	Master of Forestry or Environmental Management	3	58,600	Students spend one year in each school, combine disciplines in third year
EMORY U. ATLANTA	Master of Divinity, Theology	4	39,305	School waives 13 hours of MBA requirements
HARVARD U. CAMBRIDGE, MASS.	Juris Doctor (law degree)	4	85,960	Students take one year apiece in each discipline, then combine them
UCLA LOS ANGELES	Master of Art, Urban Planning	3	17,500	Up to 24 of the 36 required courses can be taken in the Anderson School of Management
U. OF CHICAGO CHICAGO	Master of Science, Physical Sciences	2.5	51,600	After taking 14 courses in the business school, students focus on physical sciences
U. OF IOWA IOWA CITY	Master of Art, Library and Information Science	3	29,766*	Focus is on the financial issues that affect library management
U. OF MICHIGAN ANN ARBOR	Master of Science, Engineering, or Master of Engineering, Manufacturing	2	41,300*	Requires summer internship with domestic or foreign manufacturing companies
U. OF PENNSYLVANIA PHILADELPHIA	Medical Doctor	5	123,000	Helps physicians participate in health-care management
U. OF VIRGINIA CHARLOTTESVILLE	Master of Art, Government	3	54,831*	For students interested in global business and foreign affairs

* Out-of-state tuition; state residents pay one-third to one-half

[illegible] WEEK

VINTAGE STOCKS THAT STAND THE TEST OF TIME

Pay $30,000 to own a BMW—a car with name recognition and a reputation for performance—and be known for your discerning taste. Pay 30 times earnings for a stock with the same attributes, and be labeled a fool.

People are willing to pay incredible prices for certain things, but stocks aren't always among them. Investment manager Benjamin Graham and Columbia University finance professor David Dodd, the pair who wrote the value-investing bible back in 1934, made bargain shoppers out of Wall Street's best and brightest, many of whom wouldn't consider buying a stock trading at more than 20 times earnings.

GOOD VALUE. That search for value has prompted many investors in recent years to fixate on trendy sectors, such as biotechnology and electronics, and bypass old-time corporate giants. But some respected investment pros are saying: Don't overlook the Coca-Colas, Johnson & Johnsons, and other perennial performers.

While people may dismiss them as past their prime or too pricey now, good old-fashioned growth companies are often the best value, according to a study by Jeremy Siegel, a finance professor at the University of Pennsylvania's Wharton School of Business. The study focused on the "Nifty 50," a group of large-cap stocks such as Coke, Philip Morris, Gillette, and Merck, made famous in the bull market of the late 1960s and early 1970s when their price-earnings ratios soared to 50 or more. These blue-chips are also known as one-decision stocks, the kind you buy but never sell. The original 50 varied slightly by institution, but many of the same names turned up on all lists.

By tracing the price, earnings, and returns of the Nifty 50 (as defined by Morgan Guaranty Trust) from 1970 through 1995, Siegel found that even with extraordinarily high p-e's, these equities outperformed the stock market over the long term. An equally weighted portfolio of Nifty 50 stocks (2% to each stock, rebalanced monthly) exceeded a value-weighted market portfolio by 37% from December, 1970, through May, 1995. For example, at the market peak in December, 1972, the p-e of McDonald's was 71, a ridiculously high ratio for a drive-in burger chain, analysts argued at the time. Yet despite that assessment, McDonald's dividends and earnings have increased annually for the past 30 years. Even investors who bought high in 1970 and held on through 1995, Siegel says, would have gained more than 18% a year.

SMART MONEY

Siegel is not alone in supporting back-to-the-future investing. "The bygone era of one-decision stocks may have begun anew when Warren Buffett announced this year that Coca-Cola is a permanent holding of Berkshire Hathaway," says Morgan Stanley investment strategist Thomas McManus. Analysts such as McManus cite numerous members of the Nifty 50, including Walt Disney, PepsiCo, and General Electric, as contenders morrow's market leade

You're not likely to quick buck investing in ran growth companie the potential for cont appreciation is there think of your portfol way you do a college tion: Use 50 blue to build a core curri and save the biotech for electives. "Over what will do better J&J or Procter & Gar says Hersh Cohen, ma at the Smith Barne preciation Fund.

POTENTIAL. One sion wonders few things in mon: good ma ment, strong chises, and name produc allow then charge more their competit essentially the product, Mc says. Look for ea and dividend grow 10% to 15% per year least 25 years—althoug gel concedes that on downturn is acceptable earnings are importa future potential is c "The main mistake inv make is not overp but overestimating a ny's future growth says David Alger, pre of Fred Alger Management.

Not all of the N were winners over so it's important to sify within the grou example, Xerox s $180 in 1972; today $130. Polaroid and tered, too. Portfolio weighted in such "p ing" technology con fared much worse those with a mix retail, drug, food, a tertainment stocks still want to sear dynamic new com But don't get so by today's upstart you pass up the sta of old. *Kerry*

Stocks with Staying Power

COMPANY	25-YEAR TOTAL RETURN*	5-YEAR TOTAL RETURN**
PHILIP MORRIS	21.03%	17.29%
McDONALD'S	18.35	27.98
PEPSICO	17.12	19.27
COCA-COLA	16.19	28.43
GILLETTE	15.90	29.14
WALT DISNEY	15.71	20.36
MERCK	15.17	20.24
GENERAL ELECTRIC	13.76	23.32
JOHNSON & JOHNSON	13.58	22.18

*Annualized from December, 1970, to May, 1995
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DATA: JEREMY SIEGEL, BLOOMBERG FINANCIAL MARKETS

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PICKING THROUGH THE BENEFITS MAZE

Election day may have passed, but millions of Americans still have important votes to cast. This is the time when employees must make their benefits designations for the new year. As the stampede toward managed care accelerates, many workers will be seeing new and unfamiliar options on their benefits menus, be they point-of-service plans, which allow people to use physicians not affiliated with a network, or health maintenance organizations, which restrict the choice of doctors. "Generally, employees face a choice of two to eight health-plan options during every open enrollment period," says Emmett Seaborn, a principal in the Stamford (Conn.) office of benefits consultant Towers Perrin, based in New York.

Given the bevy of alternatives, extra planning is in order. The core of any decision on benefits comes down to a series of personal questions. How healthy are you and members of your family? How much coverage can you afford? Is major surgery on the horizon, or a new baby? Do you have a satisfactory relationship with a doctor? If so, is the physician part of one of the networks on your company's list?

It may not be simple to match your wish list with one of the offered plans. In a recent Towers Perrin survey of 1,081 Americans, two-thirds said they needed to become better informed about the quality of doctors, access to specialists, and other elements in their health plans. And 66% said it would be "very valuable" if they could see hospital customer-satisfaction ratings.

QUALITY CHECK. Fortunately, some companies such as GTE, Xerox, Motorola, and PepsiCo are providing "scorecards" that can help. For example, they rate plans against regional and national norms on such things as the percentage of women of certain ages who received mammogram screenings or the percentage of children under age 2 who were given recommended immunizations. Ratings may be based on standards determined by the National Committee for Quality Assurance (NCQA), a private nonprofit organization that reports on the quality of managed-care plans, and the Healthplan Employer Data Information Set (HEDIS), a list of performance measures coordinated by NCQA.

BENEFITS

GTE, for instance, uses a three-diamond scoring system—the lowest score indicates needs improvement, followed by average quality and superior quality—to rate plans on participant satisfaction, preventive care, surgical care, and other factors. Based on HEDIS data, GTE has also given 15 HMOs out of the 125 it offers its "Exceptional Quality Designation" and has eliminated 37 HMOs from its roster during the past three years because they didn't pass muster.

Employees who move into managed care from an indemnity plan should rethink the amount they put into flexible spending accounts. Money set aside in an FSA to pay medical bills is sheltered from all taxes, but unused amounts will be forfeited. Since patients generally spend less out-of-pocket under managed care plans, you might reduce your FSA contributions.

SUPPLEMENTAL. For most active employees, there are many other benefit choices to make this time of year. Companies typically provide some life insurance and short-term disability coverage for free. But chances are these gratis plans won't cover you in the event of a major long-term catastrophe. As such, it's often a good idea to take on the supplemental coverage that many employers make available for a fee. "Typ a company can get su mental life insurance at g rates, which are less e sive than if [an emplo had to buy it on an indiv basis," says Don Gasp managing director at Management Group, a P ton (N.J.) health-care co ing firm. Many of these ages allow workers to the insurance with when they leave their ent employer.

More companies are starting to offer long-care protection, whic help pay for home healt or a nursing home whe retire. But such coverag be expensive and is pr not a great bet for workers under age 40. ing at long-term-care ance 40 years down th when you don't even what health care is go be doing two years dov road makes it a ga says Gasparro. Those opt for the insurance, ever, should make sur reasonable inflation as tions (5% to 10% a yea built in. Indeed, when ing your benefits po you need to weigh ma sues before casting votes. *Edwar*

What to Ask When Redesigning Your Package

HEALTH COVERAGE If you're considering a managed-ca option over a traditional indemnity plan, does it offer a l selection of primary-care doctors and specialists in your area—or can you use doctors not affiliated with the network? Does it cover preventive screenings for conditions such as high cholesterol and breast cancer?

SUPPLEMENTAL LIFE INSURANCE Does your employer fer supplemental group life rates that are better than wh you can get as an individual? Has your marital status changed, or do you anticipate the birth of a child, neces tating additional coverage?

SUPPLEMENTAL DISABILITY INSURANCE In the event of calamity, how long could you live off the short-term disabil coverage the company provides for free?

LONG-TERM CARE INSURANCE If you're under 40, are willing to gamble that the coverage you buy today will be adequate 40 years from now? Does the plan contain reas able long-term inflation assumptions? Is there coverage your elderly parents?

DATA: BUSINESS WEEK

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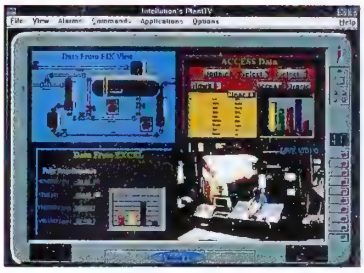

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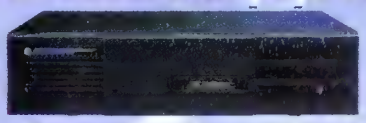

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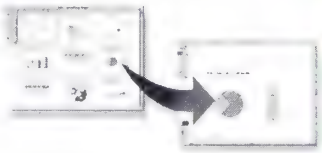

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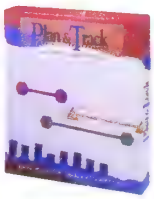

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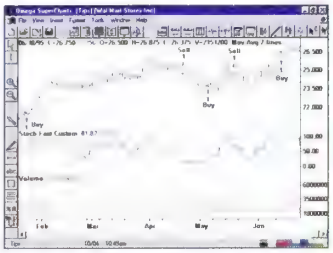

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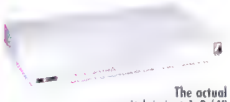

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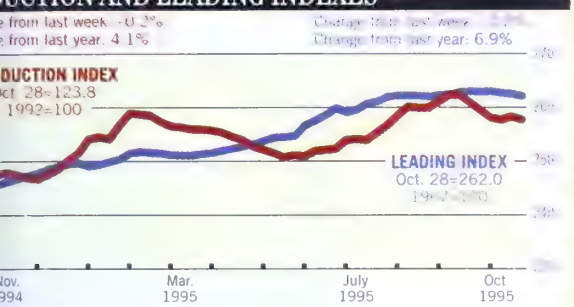

are 4-week moving averages

duction index dipped during the week ended Oct. 28. Before on of the four-week moving average, the index fell to 123.3, from For the month of October, the index fell to 123.8, from the er reading of 124.7.

ing index dropped in the latest week. The unaveraged index also fell, from 261.9 in the previous week. For the month of October, the ndex stood at 262, down from 262.8 in September.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/4) thous. of net tons	1,863	1,926#	-1.5
AUTOS (11/4) units	132,240	131,242r#	-1.6
TRUCKS (11/4) units	121,072	115,940r#	-2.8
ELECTRIC POWER (11/4) millions of kilowatt-hrs.	57,682	57,049#	3.3
CRUDE-OIL REFINING (11/4) thous. of bbl./day	13,804	13,919#	1.0
COAL (10/28) thous. of net tons	19,161#	20,410	-5.5
PAPERBOARD (10/28) thous. of tons	872.1#	899.3r	-4.6
PAPER (10/28) thous. of tons	832.0#	832.0r	-0.2
LUMBER (10/28) millions of ft.	453.8#	467.3	-7.7
RAIL FREIGHT (10/28) billions of ton-miles	25.4#	25.6	-0.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (11/3) S&P 500	585.85	582.10	25.3
ATE BOND YIELD, Aaa (11/3)	7.05%	7.10%	-18.8
RIAL MATERIALS PRICES (11/3)	110.8	110.8	NA*
SS FAILURES (10/27)	NA	NA	NA
TATE LOANS (10/25) billions	$499.7	$500.1	11.2
SUPPLY, M2 (10/23) billions	$3,719.1	$3,721.7r	4.1
CLAIMS, UNEMPLOYMENT (10/21) thous.	359	359	10.8

: Center for International Business Cycle Research (CIBCR), Standard & oody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ompanies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/8) $/troy oz.	384.800	381.950	0.3
STEEL SCRAP (11/7) #1 heavy, $/ton	134.50	138.50	0.7
COPPER (11/4) ¢/lb.	135.0	131.5	3.7
ALUMINUM (11/4) ¢/lb	77.8	77.0	-14.5
COTTON (11/4) strict low middling 1-1/16 in., ¢/lb.	84.30	83.09	20.8
OIL (11/7) $/bbl.	17.60	17.67	-4.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
L FUNDS (11/7)	5.65%	5.97%	4.74%
RCIAL PAPER (11/7) 3-month	5.75	5.81	5.74
CATES OF DEPOSIT (11/8) 3-month	5.74	5.78	5.72
IORTGAGE (11/6) 30-year	7.69	7.70	9.31
ABLE MORTGAGE (11/6) one-year	5.78	5.76	6.24
11/8)	8.75	8.75	7.75

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FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/8)	102.23	102.85	97.65
GERMAN MARK (11/8)	1.41	1.42	1.53
BRITISH POUND (11/8)	1.58	1.58	1.60
FRENCH FRANC (11/8)	4.88	4.90	5.25
ITALIAN LIRA (11/8)	1588.5	1596.1	1565.8
CANADIAN DOLLAR (11/8)	1.35	1.35	1.36
MEXICAN PESO (11/8)	7.625	7.205	3.424

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

a in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

SALES

Nov. 14, 8:30 a.m. ▶ Retail sales ere 0.1% in October, projects the orecast of economists surveyed by rnational, one of The McGraw-Hill es. Sales rose 0.3% in September. g autos, October receipts likely 0.1%, after a 0.7% jump in Sep-

EETING

'ay, Nov. 15 ▶ The MMS forecast is ange in monetary policy during ting of the Federal Reserve Board's)pen Market Committee. That iat the federal funds rate will t 5.75%.

CONSUMER PRICE INDEX

Wednesday, Nov. 15, 8:30 a.m. ▶ Inflation continues at a mild pace. Consumer prices probably rose 0.2% in October, after edging up 0.1% in September. Excluding food and energy, core prices likely rose 0.2% last month, the same increase as in each of the previous five months.

INDUSTRIAL PRODUCTION

Wednesday, Nov. 15, 9:15 a.m. ▶ The MMS forecast is that industrial production fell 0.2% in October, on top of a 0.2% drop in September. That's suggested by the decline in total hours worked in the factory sector. As a result, operating rates for all industry slipped to 83.5% in October, from 83.8%.

BUSINESS INVENTORIES

Wednesday, Nov. 15, 10 a.m. ▶ Inventories held by manufacturers, wholesalers, and retailers probably rose 0.4% in September, the same gain as in August. Factory inventories rose 0.6% in September, while wholesale stock levels were down 0.2%. Business sales likely rose 0.4% in September, much less than the 1.5% jump in August. That's suggested by the weak sales reported by retailers and manufacturers.

HOUSING STARTS

Friday, Nov. 17, 8:30 a.m. ▶ Housing starts probably stood at an annual rate of 1.4 million in October, unchanged from September's pace, says the MMS report.

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Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

The Republican revolution is already shrinking the safety net for the poor. The next target: Entitlements that go to the middle class and business. Talk about this Cover Story online. **Nov. 12**
9 p.m. EST in the Globe

Wednesday

Going for your MBA? Here's expert advice on how to get into B-school, from Stephen Christakos of Northwestern's Kellogg School and BW's John Byrne. **Nov. 15**
9 p.m. EST in the Bowl

Thursday

Electronic data interchange can help small companies team up to win big jobs. Join a discussion of how to do it led by BW Senior Writer Otis Port. **Nov. 16**
8 p.m. EST in the Odeon

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This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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estment Figures of the Week

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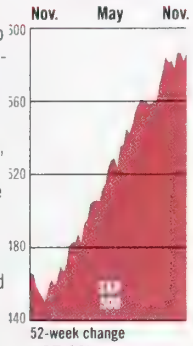
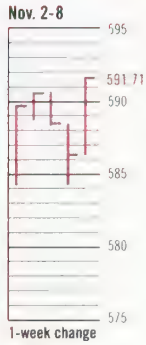
market. Despite profit-
gh-tech stocks, a sharp
Mexican stocks (a conse-
sickening slide in the
a lackluster rally in
quities, U.S. stocks
ew highs. For the week,
ustrials, still trailing
chieved this year by the
ndard & Poor's 500-
shot up 86 points—
hem coming on Nov. 8.
d, too, as the likelihood
l will cut rates in-
he wake of weak retail
ers.

STOCKS

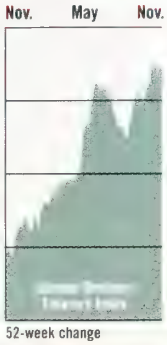


52-week change
+27.1%

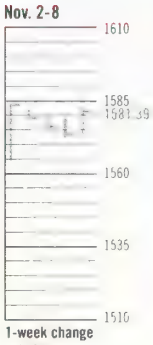


1-week change
+1.3%

BONDS

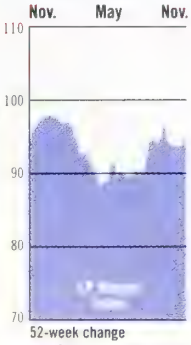


52-week change
+20.3%

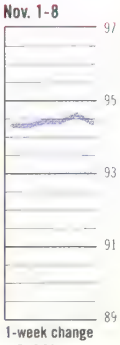


1-week change
+0.5%

THE DOLLAR



52-week change
-0.6%



1-week change
+0.1%

ET ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	4852.7	1.8	26.6
MPANIES (S&P MidCap Index)	214.3	1.4	23.3
PANIES (Russell 2000)	302.3	1.5	20.1
NIES (Russell 3000)	339.0	1.3	26.9

STOCKS	Latest	% change (local currency) Week	52-week
NANCIAL TIMES 100)	3537.1	0.5	14.1
KEI INDEX)	17,863.3	2.2	–8.0
SE COMPOSITE)	4576.4	2.8	9.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.52%	5.46%	5.34%
30-YEAR TREASURY BOND YIELD	6.25%	6.29%	8.11%
S&P 500 DIVIDEND YIELD	2.29%	2.33%	2.77%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.3	17.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	536.8	533.7	Positive
Stocks above 200-day moving average	63.0%	62.0%r	Neutral
Speculative sentiment: Put/call ratio	0.59	0.69r	Negative
Insider sentiment: Vickers sell/buy ratio	2.55	2.62	Negative

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

TH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
	14.5	4.1	UNITED HEALTHCARE	17.4	18.9	57½
RAPHY/IMAGING	11.7	39.1	EASTMAN KODAK	12.1	39.5	64⅞
ILDING	10.5	44.7	CENTEX	14.0	59.5	33½
ER SOFTWARE	10.0	45.4	COMPUTER ASSOCIATES INTL.	31.3	67.6	52½
ER SYSTEMS	9.3	41.6	SUN MICROSYSTEMS	41.4	155.6	79⅞

TH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
E TOOLS	–10.1	–3.0	CINCINNATI MILACRON	–11.9	–4.8	25
TY PRINTING	–9.6	11.7	DELUXE	–17.8	–5.3	26⅝
AL LOANS	–8.4	52.3	HOUSEHOLD INTERNATIONAL	–9.7	66.9	58
CENTER BANKS	–6.4	41.7	CHASE MANHATTAN	–9.0	59.7	57⅞
CONTAINERS	–6.2	1.4	TEMPLE-INLAND	–6.8	–1.3	46⅛

AL FUNDS

MORNINGSTAR, INC.

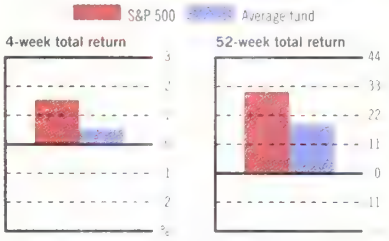
total return	%
ARNEY SPECIAL EQUITIES B	17.9
SMALLER COMPANIES A	13.0
IN INSIGHT GROWTH	12.7

tal return	%
' SELECT ELECTRONICS	92.0
SMALLER COMPANIES A	80.1
APITAL APPRECIATION	77.2

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-MEXICO	–19.8
UNITED SERVICES GOLD	–12.1
MFS GOLD & NATURAL RESOURCES B	–11.4

52-week total return	%
WRIGHT EQUIFUND-MEXICO	–61.5
TCW/DW LATIN AMERICAN GROWTH	–42.7
MERRILL LYNCH LATIN AMERICA C	–41.5



IVE PORTFOLIOS

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Treasury bonds	U.S. stocks	Foreign stocks	Money market fund	Gold
$13,436	$12,928	$11,070	$10,555	$9,895
+0.45%	+0.83%	+0.30%	+0.12%	+0.69%

his page are as of market close Wednesday, Nov. 8, 1995, unless otherwise indi-
ry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 7. Mutual fund returns are as of Nov. 3. Relative portfolios are valued as of Nov. 7. A more detailed explanation of this page is available on request. r=revised

THE DE-ENTITLING OF AMERICA

Is America ready to shake its entitlement addiction? Maybe, maybe not. Newt Gingrich is betting "yes," and he is quietly preparing a 12-step program to wean the country off the government dole. This year, it's welfare moms, the working poor, and the elderly—mostly Democratic constituencies. But the GOP agenda goes way beyond what most Americans imagine. The next step calls for ending corporate welfare and going after conservative Republican supporters—companies, exporters, farmers, ranchers, small-business owners. After that, the target is the entire middle class. Newt would like you to become more self-reliant and say goodbye to subsidized college loans, mortgage deductions, and even Social Security. Whether it's tax dollars or tax breaks, the Newtonian agenda is clear: "De-entitle" the entitlement state and rewrite the social contract between citizens and the federal government.

But do most Americans really understand this agenda and are they willing to ax their own entitlements? We don't think so. Do they have the grit to return to a 19th century society where local neighbors and churches, and not government, provide social safety nets? We're not betting on it. Will country clubbers be as eager to lose their municipal-bond tax break (which is, after all, an entitlement) as they are to cut the earned income tax credit for the working poor? We're not counting on it. Will corporate managers, so happy to cut government spending on Medicare and food stamps, be as willing to see their tax subsidies chopped? Frankly, we doubt it. Just take a look at the current negotiations over the tax bill in Congress, where an army of special interests writes government favors for themselves. Rich and poor, business and labor are all still hooked on entitlements.

WASTE AND CORRUPTION

Only one thing is certain. The U.S. entitlement society has run up against a wall. What started as temporary federal assistance to tide some people over in bad times has turned into permanent commitments to vast numbers of people with open-ended, automatic, legal entitlements to government largesse. Waste, bloat, and corruption have destroyed the financial underpinnings of this way of life. Entitlements account for 61% of the federal budget today and will rise to 80% by 2005. It can't go on.

Those seeking a return to the Jeffersonian future are perforce required to show where the resources will come from to reweave a security net at the community level. We see no evidence of their having done so. Already private charities are up in arms at the prospect of losing their massive federal funding. How can they shoulder greater responsibilities with fewer resources? Public policy must be changed to encourage private giving. That's the easy part. How are families supposed to accept greater burdens without greater financial resources? More, much more than a $500 per child tax credit, must be left on the kitchen table for the Jeffersonian dream to come true. Then there is the matter of the role of corporations. Right now, many pretend they none. But there can be no successful de-entitlement w companies training and hiring needy Americans at th level, rather than chasing the cheapest labor arou world. De-entitlement is further jeopardized without cant improvements in real wages. The benefits of productivity will have to spread to employees as w shareholders. Will companies share the wealth and ma entitlement possible? We'll see.

It's all too easy to romanticize the frontier society 19th century. In fact, it's easy to forget that children st of starvation and disease, states fought a horrendo against one another, robber barons monopolized much economy, and severe recessions struck with regularity. times neighborhood institutions helped the sick and the Sometimes they didn't.

GOP DISENCHANTMENT

The 1990s are an era of economic anxiety. With the class so worried about losing jobs and downward mobil entitling will meet resistance. The latest BUSINESS WEE ris poll shows that the vast majority of people still thi federal government should guarantee a job to any An willing to work, a minimum of health care, nursing care for the elderly, public assistance for those who work, job training, and more (page 120).

Already there is a counterattack building. The off-ye elections in Kentucky, Maine, and Virginia (states t ceive large amounts of federal money) showed Den holding their own. The GOP political momentum, sweep nation since 1994, has stalled out for the moment. Som pendents and suburbanites who flocked to the GOP aba it this time around, fleeing the revolutionary rhetoric. T be just the beginning. Wait until Social Security is ened, the home mortgage deduction goes, or deprecia lowances end. The real fight against de-entitlement w from the middle class and business, not the poor.

Because of these political realities, we don't exp New Jeffersonians to win their revolution any tim But even if they don't, they will have succeeded in sh the entitlement society as we know it. A return t love is good for America. Help should be there, whe the national or local level, but it should be temporary i and limited in scope. Personal responsibility, family ob and corporate social concern have all eroded in recent and they should be restored. Even if current improve productivity get the economy growing at a higher r provide new revenue, restructuring and downsizing t ernment are now inevitable. Efficient delivery is t *qua non* of any government service from this time forw for the rest of the Jeffersonian dream, of close com and supportive neighbors, well, maybe someday....

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BusinessWeek

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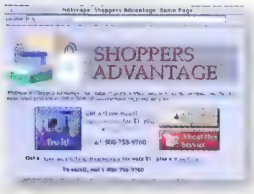
Attention shoppers!

REINVENTING THE STORE

onald's: gers in surprising es

Yes, sales are soft and stores are going bust. But some smart retailers are changing the way we shop.

CarMax: Used cars without the hassle



CUC: Virtual store, fast and cheap

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Sunglass Hut: One item, a zillion choices

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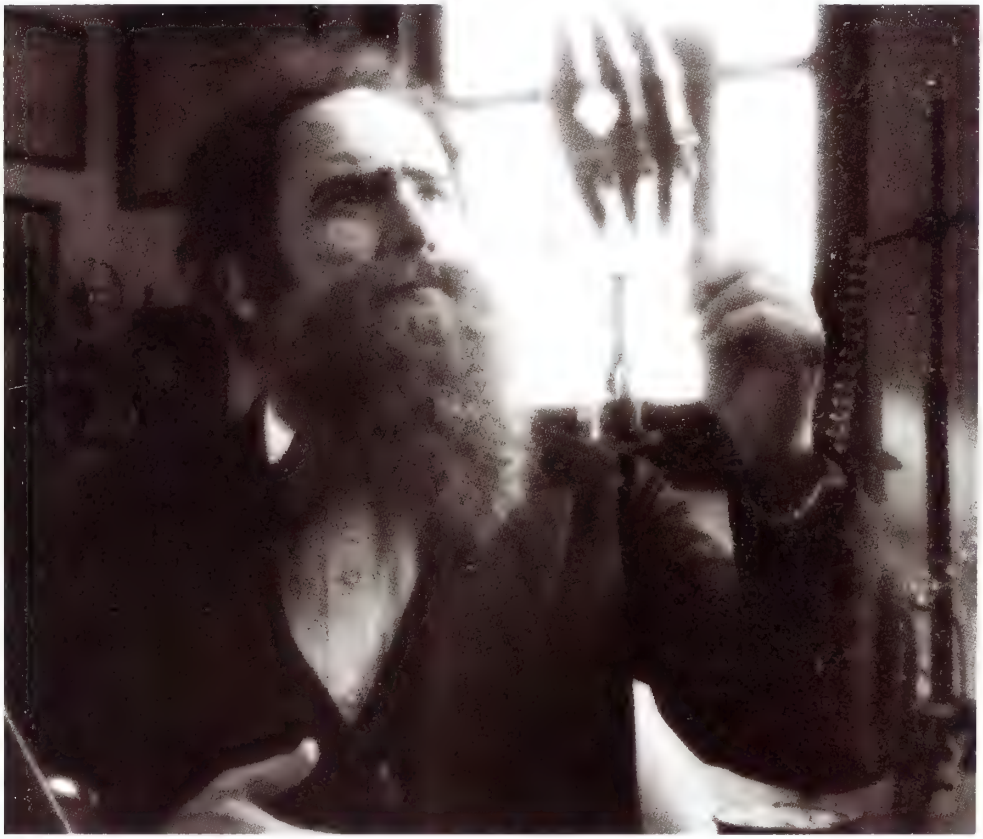
SIEMENS

1895. That was then.



Working in a small laboratory, Wilhelm Roentgen made the world's first x-ray images. Working with him, Siemens patented and manufactured its first x-ray tubes in 1896.

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1995. This is now.

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Automation Automotive Electronics Electronic Components Energy Information Systems
Lighting Systems Medical Systems Power Generation Telecommunications Transportation

SPARE CASH

With wages up, workers finally have a little money to burn

page 36

SKI LIFT

Stressing value, Purgatory recovers from a nasty spill

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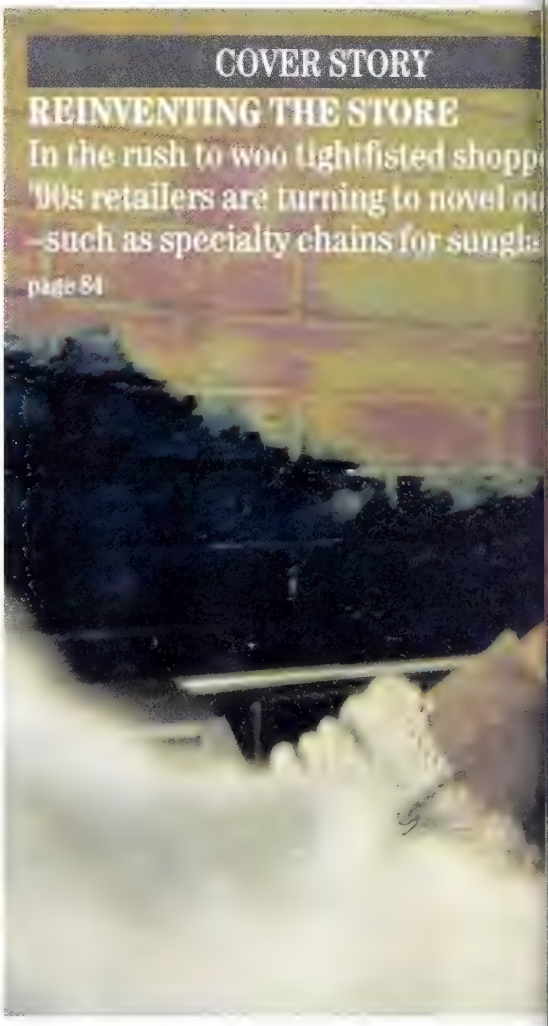

COVER STORY

REINVENTING THE STORE

In the rush to woo tightfisted shopp
'90s retailers are turning to novel o
–such as specialty chains for sungl

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BusinessWeek

NOVEMBER 27, 1995

DEADLY SPARK

A bombing ratchets up Mideast tension as oil coffers shrink

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Cover Story

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Brutal forces are fast driving out the slow and the inefficient—in supermarkets, hardware stores, and car dealerships. Meanwhile, new retail formats are springing up, from vast megastores to tiny one-product kiosks

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The Golden Arches are sprouting at gas stations, Wal-Marts—wherever

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The best buys in retail may be on Wall Street

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They're focusing on what they do best: Upscale apparel and home furnishings

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Thanks to rising productivity, falling prices, and tight labor markets, gains for workers finally outpace inflation

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A formidable new type of multinational evolves in Asia

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AOL is starting to feel rivals breathe down its neck page 114

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Bear Stearns trains its sights on blue-chip deals overseas

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est companies arevolving into
l players

; KONG'S LIVE-WIRMANAGER
g is transforming anson Electric

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:E GUY TRIES TO FSH FIRST
rican Airline's Pre ent Don Carty

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BEAR STEARNS TRE UP?
scrappy firm eyes ger deals

M NEAR-CASUALTY HOT ASSET
stors eye an Aetnasurance unit

DE WALL STREET
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INDUSTRIAL/TECHNOLOGY EDITION

Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

TALK SHOW "We are not going to break our word, and we are not going to default."

—Treasury Secretary Robert Rubin, after performing a juggling act to let Washington meet its financial obligations

DAVIDSON: *NASD nemesis*

STREET NEWS

OVER-THE-COUNTER REVOLUTIONARIES

A DISSIDENT GROUP OF SMALL brokerages wants to secede from the National Association of Securities Dealers. Unhappy with perceived NASD favoritism toward big Wall Street members, the group—calling itself the Independent Broker-Dealer Assn.—is negotiating with several regional stock exchanges to establish a new market for small-cap stocks.

With 100 members in 17 states, it envisions setting up a new exchange-sponsored regulatory body to replace the NASD as an oversight organization. Alan Davidson, the group's president and head of tiny Zeus Securities of Jericho, N. Y., wants an exchange to put up a $10 million investment to get the new body going.

Small firms, says Davidson, are fed up with NASD rules that stymie their market-making abilities and increase their capital requirements—driving some out of business. Davidson says his group will send out invitations to all 5,500 NASD member firms to join. The NASD responds that it isn't biased against small outfits.

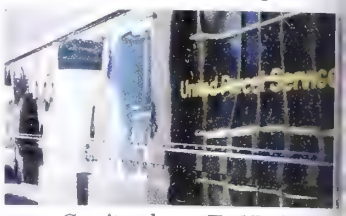
The small fry aren't the NASD's only critics. The Securities & Exchange Commission is investigating the association's purportedly lax oversight of its members. And the Justice Dept. is probing possible price fixing. On Nov. 17, the NASD board was expected to introduce plans for a sweeping reorganization to improve regulatory performance. *Michael Schroeder*

RANK AND FILE

HOW MANY SHIPPING DAYS TILL CHRISTMAS

THE THREATENED JOB ACTION at Federal Express is good news for United Parcel Service and other shippers, right? Nope. With the holiday season at hand, Federal Express rivals say they will be at capacity—and can't help those the No. 1 package carrier turns away. The crunch comes on Nov. 25, when a federally mandated cooling-off period ends and FedEx's pilots are free to stage a work slowdown or even strike.

Even without a FedEx shutdown, volume at No. 2 UPS is expected to peak at 3.7 million packages on Dec. 19, nearly triple the normal night's traffic. Despite rent 40 extra cargo jets, UPS would face a hopeless air bottleneck from FedEx pa ages. The story is similar No. 3 Arborne Express.



UPS: *Can't pick up FedEx's sla*

Wha about using the U PostalService? Its overni services problems gave to the express industry in first pce. Advice: Send pa ages erly. *David Greis*

SHUTDOWN CHARADE

WHY PAY 'EM TO STAY HOME'IT'S THE LAW

WHAT A BRILLIANT IDEA FOR balancing the budget: pay $150 million a day for 800,000 federal employees not to work. After the government shut down on Nov. 14, both Congress and the Clintonites assured these nonessenti workers, 4% of the nose ount, they would't miss a paycek—even hough it mht be late. o why not jt keep them on the job?

B ne a 19th century callethe Anti-Deficiency that mong other things, b empyees from working freelts aim: To avoid brong Washington in putif the workers later f for ck wages. For decad the les were mostly ignor Th Carter Administrati hower, issued the strict terstation used here.

e charade steams law Jas Feldesman, who h dlegovernment person dises: "Congress could ilyx the law and end sil ss." *Mike McNa*

UNREAL ESTATE

NOW, *THAT'S* THE ART OF THE DEAL

EVER WONDER HOW THE Rockefellers got to be the Rockefellers? Just look at how they've come out ahead with fabled Rockefeller Center. Current patriarch David Rockefeller is putting up a mere $20 million for a 5% stake in the Manhattan landmark they once owned outright. It has been in bankruptcy court since May because of the soft office-rental market.

His deal, in partnership with Goldman Sachs, keeps the family involved in the Midtown office complex, from which they've extracted $1.9 billion over the past 10 years. The process began in 1985, when a real estate investment trust, Rockefeller Center Properties Inc., was created to hold a $1.3 billion mortgage on 12 Rock Center buildings. The family got about $300 million when the REIT went public. Later that year, a family holding company owning Rockefeller Center pocketed an estimated $244 million by selling another Center tower, the Exxon Building, to Mitsui Fudosan. The biggest paydays came from Mitsubishi Estate: In 1989, the Japanese concern paid $846 million for 51% of the family holding company. In 1991, Mitsubishi handed over another $527 million to up its stake to 80%.

ROCK CENTER: *The family is back*

The board of the REIT, the creditor in bankruptcy, has O. K.'d the Goldman Sachs-led deal. Next step: a REIT shareholder vote next year. Peter Johnson, an aide to David Rockefeller, says that the Center didn't earn a cent for the family from 1928 (when the project started) until the 1980s. *Suzanne Woolley*

THE SCIENCE:

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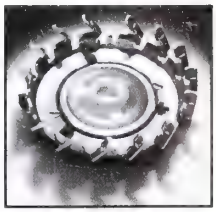

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Up Front

CHARITY CASES

WHEN CHARITY DOESN'T BEGIN AT HOME

WHILE OVERALL corporate charitable giving is down, there's an interesting crosscurrent: U.S. companies are donating more abroad. Adjusted for inflation, total giving dipped 2% in 1994, to $6.1 billion, says the American Association of Fund Raising Counsel Trust for Philanthropy. That's part of a slide under way since 1987 that has resulted from factors ranging from the '86 tax reform to greater cost-consciousness.

▲ BILLIONS OF 1994 DOLLARS
DATA AMERICAN ASSOCIATION OF FUND-RAISING COUNSEL TRUST FOR PHILANTHROPY

On the international front, however, U.S. corporate beneficence is up, largely because it's a way to sow goodwill in expanding markets. Plus, says Sprint Chairman William Esrey, the chairman of CARE's Corporate Council, there is dismay over such "mind-numbing" calamities as the Rwanda crisis.

While no hard numbers exist on corporate charity overseas, experts say it has risen rapidly. The *Corporate Philanthropy Report* newsletter estimates it is expanding yearly by 60%. A Conference Board survey finds that the median international charitable contribution of 40 large companies almost doubled in 1994, to $1.2 million. *Stan Crock*

I-WAY PATROL

THOU SHALT NOT SURF SMUT

YOUNG INTERNET PORN perusers beware: Don't surf through cybersmut at Brigham Young University. You risk expulsion. The Mormon school electronically snoops around its network to see who is visiting Net sex sites.

Browsing through Internet porn is a clear violation of the school's honor code. Students pledge to demonstrate "those moral virtues encompassed in the Gospel of Jesus Christ." Plus, BYU's computer-use policy prohibits porn. Since the school's crackdown began this semester, the worst offenders—10 students caught visiting forbidden sites at least 200 times each—have been kicked out or have voluntarily left the Provo (Utah) university. An additional 191 offenders are undergoing counseling.

The school has banned 100 obvious Net sex sites such as *http://www.playboy.com* since August. Brigham Young's network automatically generates a warning every time a user logs into an off-limits site, cautioning that the student's status at the university is "in jeopardy."

Other religious-affiliated colleges are more lenient. At St. John's University in Jamaica, N.Y., there's no explicit policy on electronic smut, although staff monitors walk around computer labs to ensure that PCs are being used for educational purposes. □

DRAWN & QUARTERED

GOLDEN HARVEST

POLLUTION: A FARMER'S BEST FRIEND?

CROPS ACROSS EUROPE AND North America are suffering—not because of acid rain, but for a lack of it. While acid rain harms forests, it also contains sulfur, an essential nutrient. Sulfur helps plants grow and fight off pests and poisons.

The problem has become most acute in Europe over the past five years, say scientists—the legacy of cleaning up sulfur-belching electric utilities since the 1970s. Hardest hit: sulfur-hungry plants such as wheat and oilseed rape, which produces oil for food. Yields have fallen in Germany and Scandinavia for barley, oats, and wheat. though the U.S. has escap the brunt of this, sulfur-p crops were spotted recen in the sandy soils of the C olinas and Arkansas.

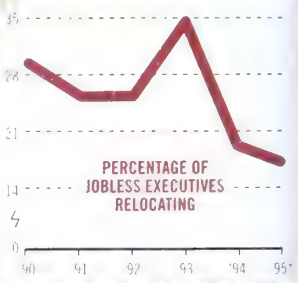
WHEAT: *Fails the acid test*

Absent bring back acid rain, solution is to more for sulf laden fertiliz The Sulphur In tute, a trade gro says spending extra $3.20 per a for sulfur can h winter cereal grai output by $45. many farmers do do it, failing to recognize symptoms. No sulfur probl exists in the U.S. Northea where there's still lots of a rain. *Peggy Salz-Trautm*

THE BIG PICTURE

JOB LEFT, I DIDN'T

Fewer unemployed executives are relocating to accept or look for a new job. One reason is the dual-income family where a working spouse won't move. Exception to the trend: 1993, the busiest downsizing year, when many felt they had to move.



DATA CHALLENGER, GRAY & CHRISTMAS, INC. *THROUGH SEPT. 30, 1995

FOOTNOTES U.S. sales of basketball equipment: 1988, $95 million; 1993, $136 million; 1994, $145 million

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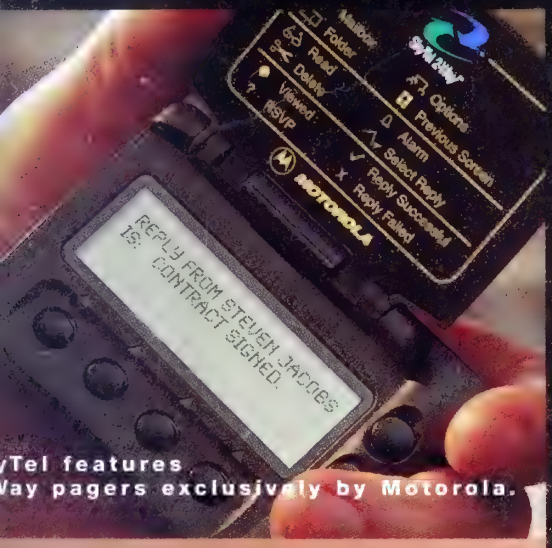

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Readers Report

ALL MERGERS ARE NOT CREATED EQUAL

I read "The case against mergers" (Special Report, Oct. 30) with keen interest. Traditionally, acquisitions praised on the altar fall short of expectations within a few months or years. The networking industry, however, runs counter to this trend.

The three largest data networking companies—Cisco Systems, 3Com, and Bay Networks—are also the fastest-growing and have provided shareholders substantial returns on their investments. In the most recent quarter, their annualized returns on equity were 42%, 43%, and 30%, respectively.

Acquisitions have been an important part of their growth and success. For instance, 3Com Corp. has made 10 acquisitions in the past four years, during which time the company's market capitalization has increased enormously—from $385 million to more than $8 billion. In contrast, over that same period of time (which in our industry is certainly long enough to pass judgment), some other companies that have chosen to buck the consolidation trend have not grown as fast, have in fact lost market share in many cases, and have failed to take advantage of the opportunities emerging in new market segments of our industry.

Eric Benhamou
Chairman and CEO
3Com Corp.
Santa Clara, Calif.

What continues to amaze me is the number of "megadeals" that go wrong. These are large companies staffed with smart people being advised by top investment bankers, lawyers, and accountants. The very problems that have led to the failure of many of the megadeals cited in BUSINESS WEEK were facts that should have been obvious to the buyer from the start.

While Mattel is happy to be among the 17% of companies that "created substantial value" in the Mercer [Management Consulting] analysis, it's still hard to understand why the group is small.

Michael J. W[illegible]
Vice-President
Corporate Developm[illegible]
Mattel
El Segundo, C[illegible]

CORRECTIONS & CLARIFICATION

In "Has Sam been minding the store?" [illegible] nance, Nov. 13), which examined the [illegible] formance of some of Sam Zell's inve[illegible] ments, BUSINESS WEEK reported that "inves[illegible] in the Zell/Chilmark Fund shifted mana[illegible] ment control away from [David] Schult[illegible] a Zell-led group." We did not mean to [illegible] ply that the change in control was instig[illegible] ed by the fund's limited partners. Rathe[illegible] grew out of private discussions betw[illegible] general partners Zell and Schulte. Their [illegible] cision was announced to the fund's ot[illegible] investors at the annual meeting on Oct. [illegible] No vote on the change in control was [illegible] quired, and none was taken.

The IBM Thinkpad described in the text a[illegible] table of "Laptops: Now, you don't have [illegible] settle" (Cover Story, Nov. 6), is the mo[illegible] 701C.

Our Nov. 20 Corrections & Clarifications [illegible] misidentified the chairman of Korn/Fe[illegible] International. He is Richard M. Ferry.

'PROSPERING' WOULD BE MORE LIKE IT

I must respond to your portraya[illegible] Equity Residential Properties Tr[illegible] (EQR) in "Has Sam been minding [illegible] store?" (Finance, Nov. 13). I do [illegible] agree with your category selection [illegible] "mixed" regarding EQR's performar[illegible] Between our initial public offering [illegible] August, 1993, and Sept. 30 of this y[illegible] dividends per share have gone up 1[illegible] the stock price is up 8%, revenues [illegible] up 212%, and the total market capital[illegible] tion is up 195%. If you had been fami[illegible] with our performance, I believe our c[illegible] pany would have been properly placed[illegible]

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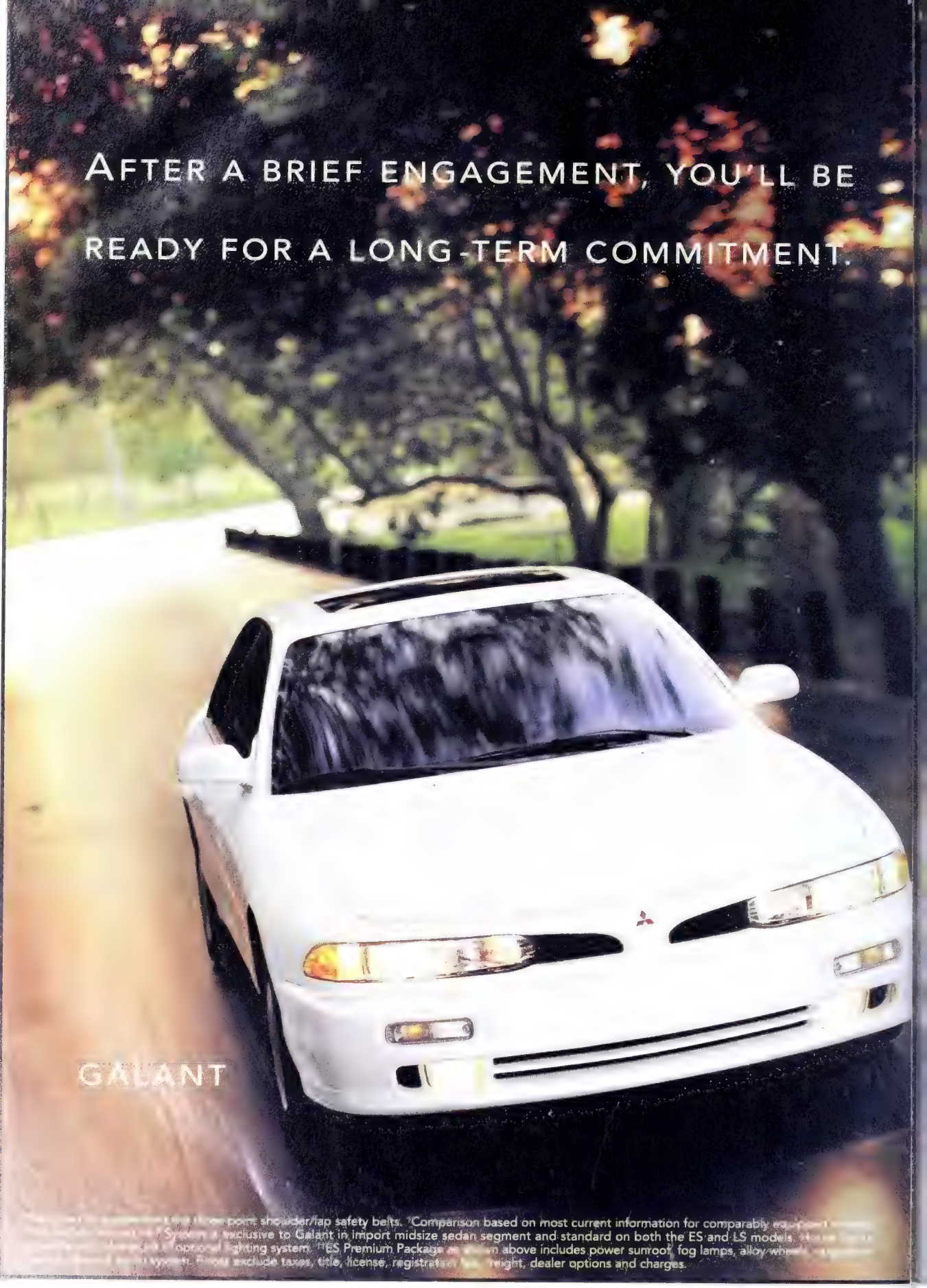
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the "prospering" category of your story.

Douglas Crocker
President and CEO
Equity Residential Properties Trust
Chicago

A TO Z ON COMPUTER BUYING

Congratulations on "Computers: Our first annual buying guide" (Cover Story, Nov. 6). You did a good job of communicating the technical information readers need to make buying decisions without giving them the sense that they're reading "Intro. to Particle Physics."

Timothy J. Rudd
Carrollton, Tex.

I just received the computer buying guide. Much to my surprise, Apple Computer Inc.'s Macintosh was not listed anywhere in your article except for a side note about Apple's Performa line. I am the proud owner of a Power Mac 8500 that I promise you has no match on the Intel side as far as power and ease of use right out of the box.

How can your article about laptops not even mention an Apple PowerBook? I ask that you research the Apple product line and discover why devout Macintosh users will never have a need for a product like Windows 95.

Mike Ritter
West Liberty, Ohio

WHY THE BIG BOYS SUDDENLY LIKE NO-LOADS

You have done a great disservice to mutual-fund investors ("The big boys finally say 'yes' to no-loads," Finance, Nov. 6). Your reporter suggests that investors will be better off with these new no-load options: "Instead of a hefty load, investors will pay the broker a small annual fee . . . between 1% and 2% [annually]." This would be in addition to annual operating expenses, which are around 1.5% per year.

No wonder the "big boys" are diving in. This "small" fee would dwarf any load, even after a relatively short holding period, especially if investors would normally realize discounted commissions through large purchases. The industry just doesn't get it. The problem is not that investors are unwilling to pay a load. (On the contrary, most people are happy to pay for good financial advice.) It's that brokers have trouble justif the cost associated with the qualit the advice and services they provi

Theodore S. I
Financial Adv
Hefren Tillotson
Butler

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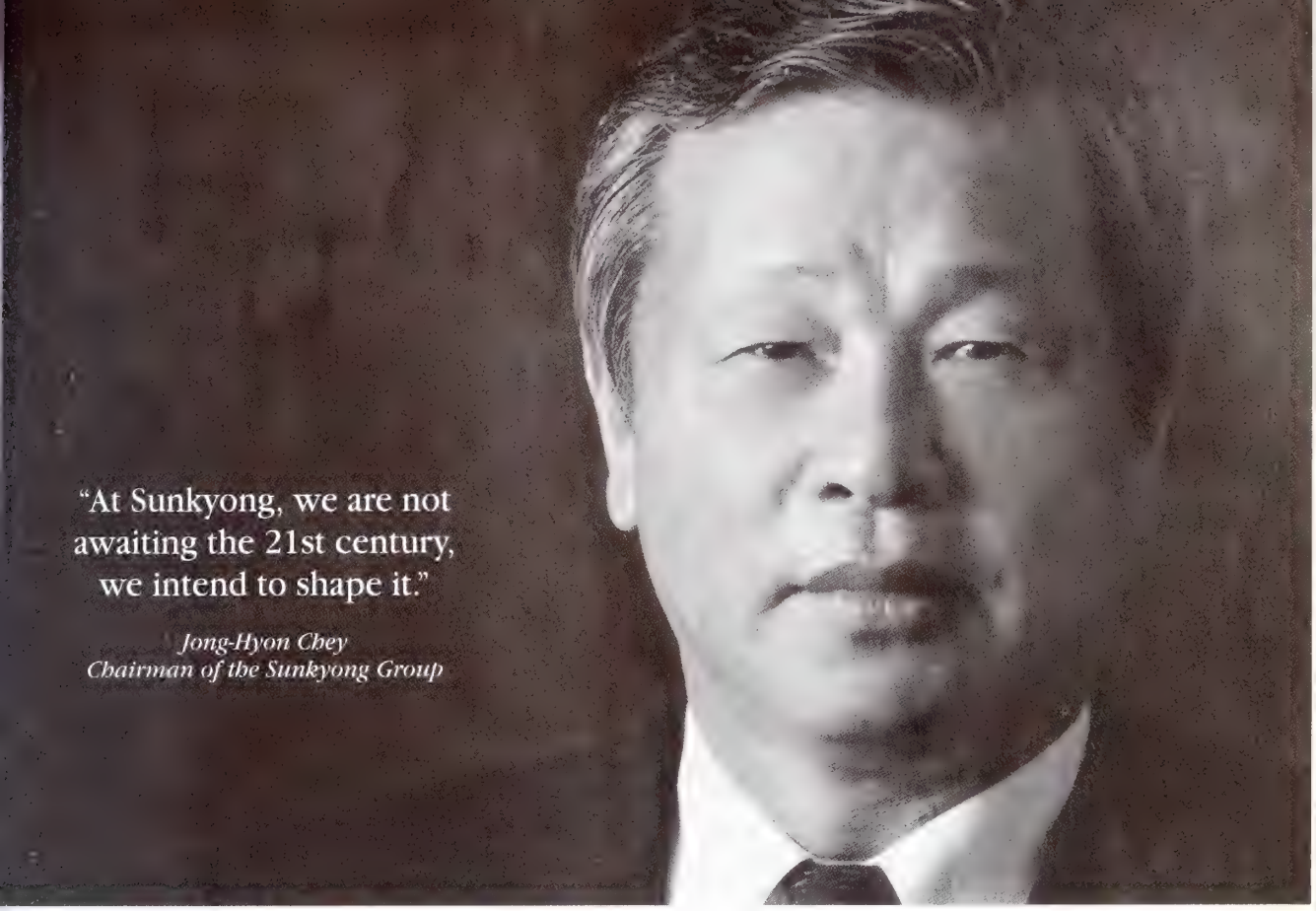

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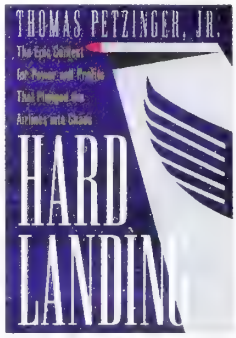
HARD LANDING
The Epic Contest for Power and Profits That Plunged the Airlines into Chaos
By Thomas Petzinger Jr.
Times Business • 520pp • $30

WILBUR AND ORVILLE THEY AIN'T

It's spring, 1977, and recently elected President Jimmy Carter wants to deregulate the airlines. American Airlines Chairman Albert Casey is testifying before the Senate subcommittee on aviation, explaining why deregulation won't work, while a mean-looking man with pointed teeth and slicked-back hair is turning pages for him. When the hearing ends, the mean-looking guy approaches a congressional staffer and declares: "You f—ing academic eggheads! You're going to ruin this industry."

Robert L. Crandall, now chairman of American, was wrong, of course. Deregulation didn't ruin the industry. In fact, it fostered a horde of new competitors who cut fares to the point that flying was sometimes cheaper than driving. But the skies haven't been friendly. As they have attempted to adjust to new realities, even the largest U. S. carriers, such as United Airlines Inc. and American, have been battered by labor discord and billions in losses since the late 1980s. A flock of airlines, including Eastern, Pan Am, and People Express, didn't survive.



Of course, a lot more than free-market dynamics lies behind their demise. Many carriers were victims of the arrogance and drive of the executives who shaped the industry. In *Hard Landing*, veteran *Wall Street Journal* reporter Thomas Petzinger Jr. lays out in masterful detail the wild ride th[illegible] dustry has taken.

Petzinger builds the story around [illegible] orful portraits of men such as Cran[illegible] Frank Lorenzo, and Herbert Kelle[illegible] Only Kelleher, the chain-smoking, [illegible] Turkey-drinking character who sin[illegible] handedly created Dallas-based So[illegible] west Airlines Co., comes off as n[illegible] of a hero. While fighting off comp[illegible] tors' legal threats and political ma[illegible] verings, he keeps his sense of hu[illegible] dressing up as the Ea[illegible] bunny or settling a law[illegible] via an arm-wrestling ma[illegible]

Across town, Ameri[illegible] rises to be No. 1 under C[illegible] dall, a brilliant executive [illegible] created such consumer b[illegible] as Super Saver fares and [illegible] quent-flier programs. But [illegible] also depicted as a mean-s[illegible] ited manager and brutal [illegible] versary who happily sto[illegible] to such dirty tricks as bl[illegible] ing travel agents' view of competit[illegible] fares on his Sabre computer-reser[illegible] tion system. Former United Airli[illegible] Chairman Stephen M. Wolf is portra[illegible] as aloof and obsessive. And he ne[illegible] misses a trick, negotiating fat stock [illegible]

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tions that he cashes in after sprucing up and then selling Republic Airlines, Flying Tiger, and United.

Then there's the infamous Lorenzo. Bouncing from one highly leveraged hostile takeover to the next, Lorenzo built tiny Texas International into an empire that included Continental Airlines, New York Air, Eastern Air Lines, and People Express. Lorenzo's real legacy: the hatred he engendered in employees through such tactics as putting a still solvent Continental into bankruptcy in order to abrogate union contracts. Petzinger adds new dimension to the Lorenzo slash-and-burn stereotype: "What he did was, if anything, even lower. He walked away and let [his underlings] do it for him."

Petzinger's insights and his ability to tell riveting stories make *Hard Landing* a good read as well as a valuable resource. But the book disappoints in several key ways. It lacks analysis of why the industry keeps careening between near-disaster and record profits. And it offers little insight into where the industry is heading. The book also places too much emphasis on the Texas airlines, neglecting such important players as Delta, Northwest, and TWA. And *Hard Landing* barely remarks on such recent developments as last year's $5 billion employee buyout at United or the current fiery battle in California between feisty Southwest and United's Shuttle.

Petzinger offers riveting stories of the airlines' bosses–but little insight into the future of the industry

In his defense, Petzinger says that he actually wrote 800 pages that the publisher condensed to around 400, any reporter's nightmare.

Even if *Hard Landing* fails to connect all the dots, the airline industry's tribulations fall into a clear pattern. Hard-driving, incredibly ambitious men such as Crandall and former astronaut Frank Borman, who headed up Eastern, are drawn to an industry that seems to have an almost erotic hold on their imaginations. While such men are often great builders of fleets and systems, they too often end up in pitched battles with employees. As recently as two years ago, Crandall provoke strike by flight attendants, convin he could intimidate them into cross picket lines.

As with deregulation, Crandall wrong. The picket lines held, and Am ican's service was completely disrup during the important Than giving holiday. Two years er, after binding federal a tration, American's fli attendants walked away w twice the raise the compa had offered. Now that Am can is posting record prof Crandall's call for wage concessions fr other unions appears doomed.

Why can't there be more Kelleh and fewer Lorenzos in the U.S. airl industry? You can't blame the bellic management style on entrenched ions: Southwest's employees are uni ized and happy, enabling Kelleher's nancially healthy airline to ke expanding at the expense of the jors. Maybe all airline chief execut officers should be required to dress as the Easter bunny once a year.

BY SUSAN CHANDL

Chandler covers transportation fr BUSINESS WEEK's Chicago bureau.

There's never a dull moment in the great port city of Osaka. Emperors have been buried here. Warlords built their castles here. Merchant families made their fortunes here. Japan's *bunraku* puppet theatre got its start here. And it's here that the long-awaited Osaka Imperial Hotel will open in March 1996.

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HOT TYPE If ever an old adage fits, this is it: Don't judge this month's No. 6 best-seller by its cover. *Microsoft Secrets* (Free Press, $30) has an eye-grabbing title that might make you think you'll be dished up some delectable dirt on the software giant. Think again. Instead, authors Michael A. Cusumano and Richard W. Selby provide a thorough analysis of the whys and wherefores of Microsoft Corp.'s huge success. But secrets? They're not here.

What is here is a meticulous accounting of how Microsoft operates—from its rigorous hiring methods (only 2% to 3% of those interviewed make the cut) to how it improves products by making workers use them (a practice called "eating your own dog food") to a culture that emphasizes brutal critiques of finished products (called postmortems). The result: a blu print not only for software companies but also for any comp ny that's facing fast-paced markets and harrowing competiti while managing a nonconformist, high-I. Q. staff.

Authors Cusumano, an associate professor of manageme at the Massachusetts Institute of Technology, and Selby, an a sociate professor of information and computer science at t University of California at Irvine, came up with the seven-po blueprint after in-depth interviews with 38 employees, cluding Chairman William H. Gates III, and an examination several thousand pages of confidential internal docume and project data. It offers up much insight, but be fo warned: *Microsoft Secrets* is not for the casual reader.

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BY STEPHEN H. WILDSTROM

HOW TO CRASH BUT NOT BURN

If you're among the 93% of folks with no backup, it's time to safeguard your data

In my years of working with computers, I've suffered a succession of disk-drive disasters—ranging from total mechanical failure to the corruption of key files that kept a machine from booting. But I've been saved repeatedly by backing up my hard disk onto magnetic tape.

Industry statistics show that only 7% of computers are equipped with backup systems. If lots of your job-related or vital personal-finance files are on your hard disk and if you're among the unprotected 93%, you're living dangerously. Even if you have made copies of files, you face a tedious job rebuilding your software from the original installation disks.

MEA CULPA. Windows 95 users face an additional burden, one that may make you think twice about upgrading. Microsoft Corp. had promised that its new operating system would include tape backup software. But the backup program included in Win95 doesn't work with many tape drives, including a whole new generation of cheap, high-capacity units.

Blame the Win95 production schedule. Hewlett-Packard Co.'s Colorado Memory Systems Div., which wrote the software, says it fully met Microsoft's specifications. But HP had to deliver months before Win95 and the new machines appeared. Microsoft Senior Vice-President Brad A. Silverberg admits he didn't pay enough attention to the backup issue. Both Colorado and Arcada Software (whose backup programs come with tape drives from Conner Peripherals and Iomega) issued Win95 versions of their software, but they still fall short of what users need.

Here's why. Ideally, even with a crash requiring replacement or reformatting of your hard drive, you should be able to reboot and start the process of restoring from tape. Under Windows 3.1, you could do this with a number of products, including the popular PC Tools from Symantec Corp., but these won't work with Win95. Instead, you must first completely reinstall Win95. If you have the program only on CD-ROM, you may first have to install an old version of DOS. After reinstalling Win95, reinstall the backup software and then restore your other programs and files from tape. Arcada, HP Colorado, and Symantec are wrestling with the problem. But "it will be painful for a while yet," says John Boose, general manager of HP Colorado.

REMOVABLE DISKS. While the software mess is a bummer, there's lots of good news on the hardware front. The cost of tape drives has plunged. A new system from 3M called Travan allows backing up even big hard drives onto a single tape. An 800-megabyte Ditto drive from Iomega (800 697-8833) costs just $150, while a 3.2-gigabyte version is under $300. Conner (408 456-4500) and Colorado (800 810-0133) offer Travan drives of similar capacity at slightly higher prices.

While tape is the most cost-effective system for archival storage and disaster recovery, you may be willing to settle for backing up just critical files. Unfortunately, floppies can no longer hold even a moderate-size spreadsheet or presentation. For around $200, systems from Iomega and SyQuest Technology Inc. (800 245-2278) store up to 135 megabytes on removable disks. These are especially popular on Macintoshes, which can't use inexpensive tape drives. For even more capacity, the $749 PD/CD drive from Plasmon Data Inc. (408 956-9400) stores up to 650 megabytes on special cartridges and also doubles as a quad-speed CD-ROM reader.

More computer users have vital chunks of their business and personal lives on their machines. While backup remains harder than it should be, especially on Windows 95, even a flawed system is a sound investment.

BULLETIN BOARD

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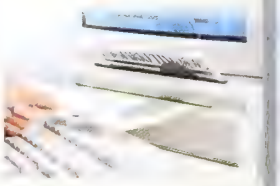
SHARP-EYED SCANNER

The PaperMax from Visionee Inc. (800 787-7007) redefin desktop scanning when it w introduced last year. Now, tl latest version, the PaperPor Vx, refines that concept. The redesigned unit is still smal enough to nestle behind you keyboard, but improved resc lution makes the new Paper



Port much better suited to scanning documents for cha acter recognition. In combin tion with a printer, it can als be a copier. The included so ware allows you to move any thing you have scanned to another program, such as fa or word processing software just by dropping its image onto an icon. The estimated street price for either the Wi dows or Macintosh version is $369. A similar unit will be marketed by Hewlett-Packar Co. as the ScanJet 4s.

3-D GRAPHICS

APPLE'S ASPIRATIONS

While desktop computers are getting better at displaying three-dimensional graphics, creating the images is large a job for powerful workstations such as those from Sili con Graphics Inc. Now, however, Apple Computer Inc. is hoping to make the Macintos a major player in this marke by introducing the QuickDrav 3D accelerator card. The $39 card works in new Power Ma 7500, 8500, and 9500 units as well as clones from Powe Computing, Radius, and DayStar.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

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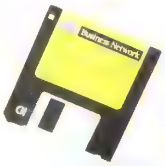

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BY ROBERT KUTTNER

WHY IT'S TOO SOON TO MONKEY WITH THE CPI

DEBATE: Conventional wisdom—and opportunistic politicians—say the index overstates inflation. But a good case can be made for the opposite

Reading press accounts, you might think there was universal agreement that the government's consumer price index overstates inflation. This impression, however, is less the result of expert consensus than political opportunism by would-be budget cutters: If the CPI can be lowered by one percentage point, the deficit will be reduced by $634 billion over the next 10 years—a third of all savings needed to balance the budget. That's because the CPI governs annual cost-of-living adjustments in Social Security checks and other government benefits. What better way to cut benefits than through a seemingly technical adjustment? As an added bonus, a deflated CPI would trump the worry that wages have been flat. Cut the CPI, and presto—real wages are rising.

On June 26, the Senate Finance Committee appointed an expert panel on the CPI chaired by Michael J. Boskin, chief economic adviser in the Bush Administration. All five members had previously testified that the CPI overstates inflation. Not surprisingly, on Sept. 15, the panel's interim report concluded the index overstates inflation by one percentage point. But does it?

Janet L. Norwood, the respected former Commissioner of Labor Statistics, thinks not. Dean Baker, chief macroeconomist at the Economic Policy Institute (EPI), a Washington think tank, makes a convincing case that the CPI could understate inflation. Massachusetts Institute of Technology economist Zvi Griliches, president of the American Economic Assn. and a Boskin panel member, thinks the whole debate is on shaky empirical ground.

STEAK VS. CHICKEN. Supposedly, the CPI overstates inflation for several reasons. One issue is quality improvements. Today's $3,000 computer is far superior to a 1990 $3,000 computer. In fact, the Bureau of Labor Statistics does adjust the CPI for quality changes in computers and a host of other products. Its new-car price index, adjusting for quality, shows a rise of only 150% since 1970—though the actual sticker price of a new car has nearly quadrupled. Doubtless, today's new cars are better—but four times better?

Second, since the CPI uses a fixed "basket" of goods, it misses what economists call substitution effects. If steak goes to $5 a pound, thrifty consumers switch to chicken. Critics say the CPI thus overstates what consumers actually spend. Yes, but then chicken isn't steak. If it's fair to adjust for quality ga let's also count quality losses.

Third, the BLS waits years before inclu new products in the standard basket, t missing some dramatic price reductions. pocket calculator that first cost $1,000 sells for $10. True, but as EPI's Baker serves, few people bought $1,000 calculat Boskin et al further fault the CPI for unde timating the effect of retail discounting.

Baker concludes that the cumulative fects of all these factors may cause an o statement of perhaps three- or four-tenth a percentage point, not the full point proj ed by Boskin's panel. But, as Baker obser that's not the end of the story. We also n to take into account the several areas which the CPI likely understates inflation.

QUALITY OF LIFE. For example, the CPI or most health-insurance costs, one of the n dramatic sources of consumer inflation. H too, quality changes cut both ways. He technology is definitely more advanced. with managed care, the consumer likely g less face-time with the doctor, is often nied access to specialists, and increasin gets the bum's rush out of the hospital. S ilar quality deteriorations, uncounted by CPI, are evident in cramped plane flights t now omit hot meals.

Nor does the CPI capture quality-of-life teriorations that entail new costs. If you h to install alarm systems in your home your car, that is a cost necessitated by det orating social conditions. Likewise, you n be spending more money on legal fees cause the U.S. has become more litigi The price of the "service" is beside the po "I am worse off in direct proportion to the ditional amount of money that I have spend on my lawyer, regardless of the qu tity or quality of legal services provide Baker says. To demonstrate the absurdity Boskin's proposed revisions, Baker appl them historically. The result puts the aver worker in 1960 below that year's poverty l not a believable finding.

These issues are subtle, intriguing, worthy of dispassionate study. Accurate e nomic data are simply too important fo cheap political fix. The Boskin panel's fi report, due next June 15, should resist temptation to deliver technical cover for sla ing benefits and instead tender a genu piece of research.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

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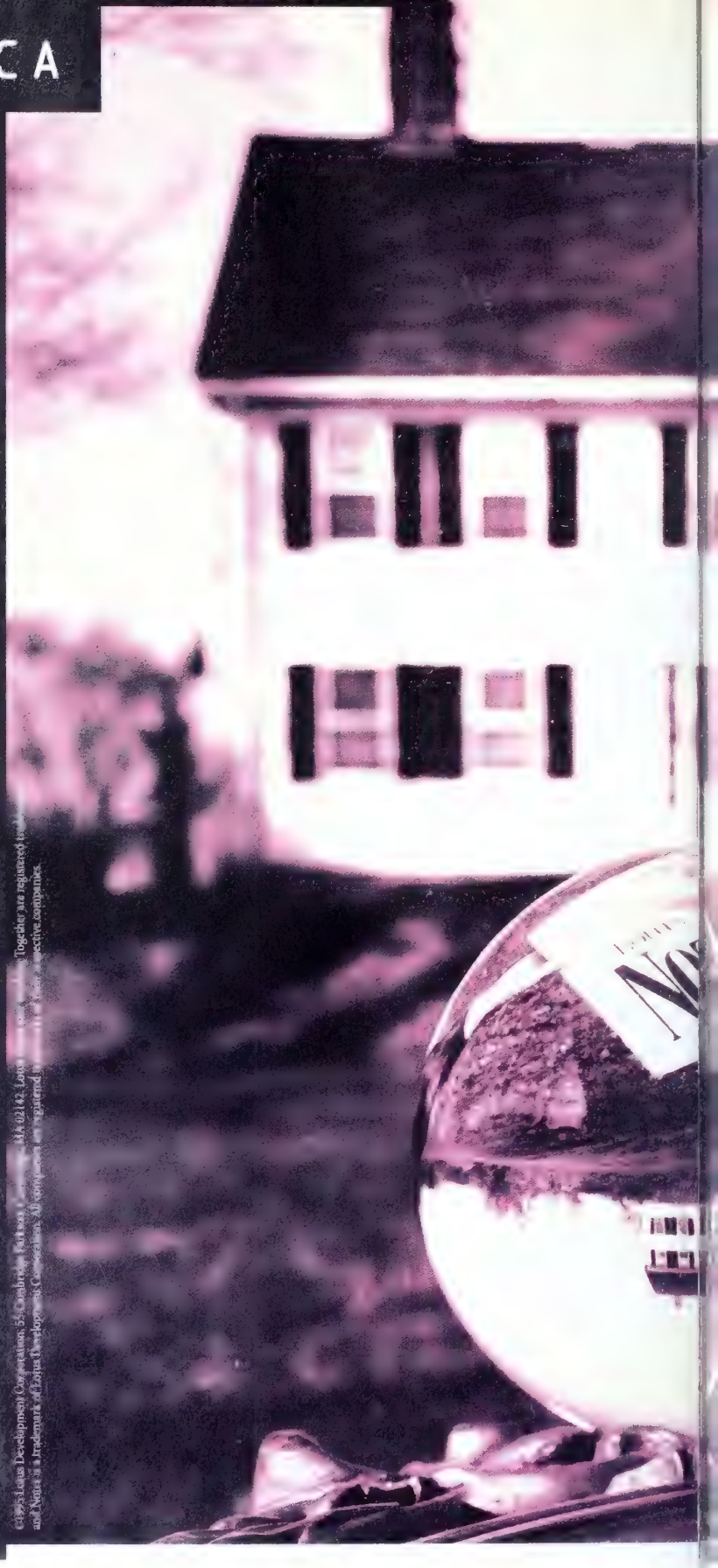

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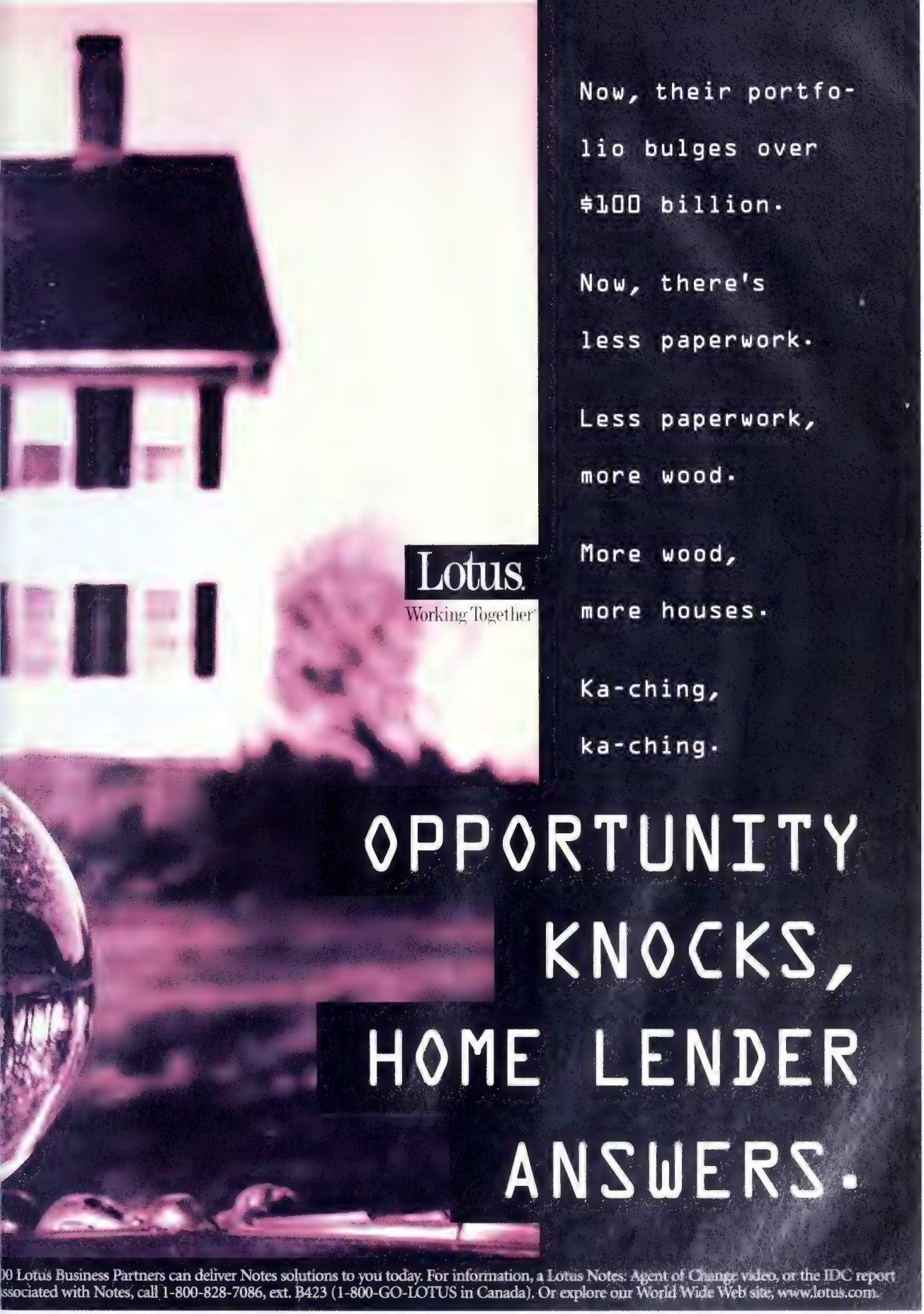
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BY GENE KORETZ

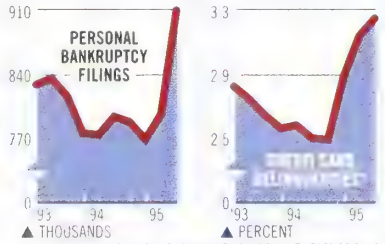
HOW HEAVY ARE DEBT BURDENS?

A vexing issue as Christmas nears

Economy watchers are beginning to wonder whether the huge buildup in installment debt since early 1993 is starting to put a serious dent in consumer spending. Especially troubling in light of current retail sluggishness and poor Christmas sales projections are the recent surges in credit-card delinquencies and personal bankruptcies (chart).

Up till now, experts have tended to play down the rise in installment credit—to a record 18.9% of disposable income—on the grounds that it mainly reflects the growing "convenience usage" of credit cards. But after adjusting for this trend and the debt implicit in cars acquired via leases, economists at DRI/McGraw-Hill find that installment credit is still at peak levels.

Further, the big upticks in installment debt seems to be concentrated among low- and middle-income groups. According to a Federal Reserve Board survey, between 1989 and 1992, the percent of households with credit-card debt jumped from 13.4% to 23.7% among households with earnings under $10,000, and from 29.1% to 43.2% among families with incomes from $10,000 to $25,000. Use of credit-card debt by families with incomes above $50,000, on the other hand, actually shrank.



Economist Mark M. Zandi of Regional Financial Associates believes that the credit woes of low- and middle-income groups—those with incomes under $50,000—are behind rising bankruptcy and credit-card delinquency rates. With meager financial assets, he notes, "these groups have hardly benefited from 1995's huge runup in stock and bond prices."

The underlying issue then, muses Zandi, is whether the lack of income growth plaguing most American families for two decades is finally starting to undermine the aggregate economy. The theory has been that rising consumption by more affluent households would keep the economy on an even keel. The reality, however, may be that it was the growing reliance of low- and middle-income families on borrowing to maintain living standards that provided essential fuel for economic growth.

"Rising retail bankruptcies, softening sales, and growing credit-card delinquencies," says Zandi, "all suggest that the economy is less resilient and more vulnerable to a spending contraction than many people believe."

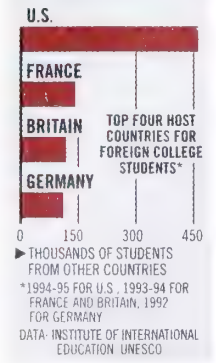
COLLEGES ARE LOOKING ABROAD

Nations vie for foreign students

Although the U.S. remains far and away the leader of the pack among industrial nations in attracting foreign students to its colleges and universities, its lead appears to be eroding.

The Institute of International Education reports that the U.S. played host to 453,000 foreign college students in the past academic year, more than one-third of the worldwide contingent of such students. But that's a mere 0.6% annual increase at a time when global competition for foreign students is heating up.

One reason more countries are wooing foreign students is the economic benefits they bring. In the U.S., for example, they spend a huge $7 billion a year on tuition and living expenses, and provide vital support for many graduate programs in science and engineering—making higher education the nation's fifth largest "exporter" of services.



Foreign students also help build economic ties with fast-growing nations overseas. Indeed, though the ranks of Chinese and Asian foreign students at U.S. colleges fell last year for the first time in recent memory, they have been rising sharply in Australia and Japan.

LOOSER FISCAL HANDCUFFS

Cities and states are still spendi

Worried that coming federal bu getary restraint could imperil t U.S. expansion? Don't be, advises ec omist William V. Sullivan Jr. of De Witter Reynolds Inc., who argues th "the vibrant effect of state and lo spending" will save the day.

Sullivan points out that real st and local outlays in the national inco accounts rose by nearly $17 billion b tween the second quarter of 1994 a the third quarter of 1995, even as fe eral spending contracted by $6 billi Since such outlays now represent ne ly two-thirds of total government spe ing and are on a steady upward cour he believes that they will prove "mo than enough to offset any downwa pull from federal fiscal restraint in co ing quarters."

GOLDEN YEARS GET LONGER

And men are gaining on women

Life expectancy among employees big U.S. companies improved s nificantly in recent years, but men co tinued to post bigger gains th women—a trend that first surfaced the late 1970s. That's the finding of a cent study by Buck Consultants Inc. 875,000 active and retired workers two dozen of its major corporate clien

According to Buck, the life expecta cy of a typical 65-year-old male work has jumped by a remarkable 15 mont over the past six years, compared wi a gain of 9½ months for women. D spite recent male gains, 65-year-o women can still expect to live longer to nearly 87, according to the Buck da compared with 83 for men. (Similar b smaller gains have been posted by t U.S. population as a whole.)

Why are men posting bigger increas in life expectancy after lagging behi women's gains during most of this ce tury? One theory is that the latter-d smoking habits of women are catching to them at a time when men are ben fiting from medical advances and mo emphasis on personal fitness. Whatev the reason, however, the lengtheni lives of older Americans underscore t need to rethink the nation's retireme system in the decades ahead.

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"IN NIRVANA" Mark Young, whose family owns 42% of the bank his great-grandfather ra[illegible] has no plans to sell or merge

IT'S A WONDERFUL BANK

Orwell, Vt., is way off the beaten path. To get there, I fly from New York to Burlington, then drive over an hour south—well past where the strip malls and Dunkin' Donuts franchises give way to tidy fields and occasional farmhouses. After spending the night at an inn near Orwell, I discover that the proprietress doesn't take credit cards, and I've left my checkbook at home. No matter. She tells me to mail her a check later.

I drive over to Orwell's town center, where rain has kept almost everybody off the streets. The village green is empty, as is the elementary-school yard. I've come to this community of 1,100 to visit the First National Bank of Orwell, originally chartered as the Farmers' Bank of Orwell in 1832. It has just one office and $23 million in assets—small potatoes. As BUSINESS WEEK's banking editor, though, I focus mainly on the country's biggest institutions, so I have come here looking for a financial outfit that still does business the way Jimmy Stewart did in *It's a Wonderful Life*. I want to find out if a bank can prosper by offering simple, straightforward service, the kind provided by the savings and loan in Frank Capra's Bedford Falls.

When I arrive at First National shortly before 9 a.m., I'm met by Mark Young, the 42-year-old president. The three female tellers are getting ready for the bank to open as Young steers me through the tiny lobby into his office. His house adjoins the bank: Like his father and grandparents before him, Young's commute consists of walking through a hallway door.

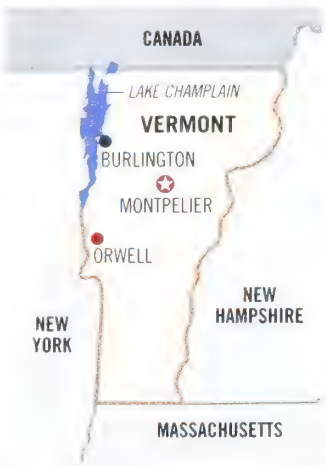
The Young family connection to First National dates from 1880, when Davis L. Wells, Mark Young's great-grandfather, was hired as the bank's telegraph operator and eventually took over. Now, as Young sits at great-grandfather's rolltop desk in his office, which doubles as the boardroom, he can point to the original charter hanging on the wall. Young's grandparents, Russell and Mabel (née Wells) Young, ran the bank. (Mabel also played the piano for silent movies in the town hall.) Russell's son, Robert, took over in the 1950s, and he turned the [illegible]stitution over to [illegible]son in 1979. Mark [illegible] members playing [illegible] a toddler in his p[illegible] pen behind the [illegible]er windows. A s[illegible] on his little finge[illegible] a reminder of h[illegible] he used to swing [illegible] the vault door—[illegible] how the door co[illegible] shut suddenly and hard.

First National offers few of the [illegible]vices most Americans take for gra[illegible]ed. There is no mutual-fund salesp[illegible]son, no ATM. But then, as Young s[illegible] "there is not a whole lot that some[illegible] needs cash for at midnight in Orw[illegible] Vt." Sometimes, when Young is a[illegible] big supermarket in one of the lar[illegible] towns nearby, customers hand him t[illegible] paychecks and ask him to deposit th[illegible] He does it.

GOOD SHAPE. The bank's delinqu[illegible] loans have increased of late. Young s[illegible] that one $115,000 mortgage, the ba[illegible] largest, is past due, and "it plays ha[illegible] with our delinquent loans." Over[illegible] though, First National is in good sh[illegible] It gets an A rating from Sheshunof[illegible] rating firm in Dallas. It's hard to [illegible]lieve that Young is in the same indus[illegible] as Citicorp, with its $161 billion in lo[illegible]

Unlike other parts of Vermont, [illegible] out-of-the-way reg[illegible] around Orwell has [illegible] dearth of developm[illegible] So there's little loan d[illegible]mand from real est[illegible] speculators and [illegible] chance of First Nation[illegible] going overboard. "W[illegible] kind of out here in Ni[illegible]na," says Young, grinn[illegible]

Orwell benefits fr[illegible] having its closest riv[illegible] 20 or so miles away [illegible] Fair Haven and Mide[illegible]bury, and most of [illegible] banks there don't o[illegible] Young's personal tou[illegible] "The bigger the [illegible]



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ones get, the better off I am," he sa
"A lot of people want somebody to t
a personal interest in them. They w
to know the teller and be treated w
respect." David Girard, a credit s
cialist at the Agriculture Dept.'s Fa
Services Agency who has worked w
Young on many loans, says some peo
go out of their way to bank at Fi
National rather than at big bure
cratic institutions.

MATTER OF CONSCIENCE. Even so, bu
ness is getting harder, what with
troubles besetting dairy farme
Young's biggest customer group. M
prices are level with those of 18 ye
ago, but prices on feed, cattle, a
equipment have all increased. Risi
costs are also squeezing owners of ap
orchards. Still, Young keeps making
ricultural loans. "The temptation is
run for cover, but this bank would
be here if it weren't for farming.
conscience won't allow me [to stop le
ing to farmers]", he says. Girard s
most of First National's loans are
small—generally less than $100,00
that exposure to any one custome
problems is limited.

We step out of Young's office into
main area of the bank, where custom
stand at two of the teller windows. "
Mark," says one, holding a toddler up
the window. Young stops and cha
waving at the child, then ushers
outside for a spin. It is immediat
clear that Young's devotion to sm
town banking is in part a way of he
ing a community he loves. Passing w
looks like abandoned farmland, You
says that development rights have be
bought by a state trust aimed in part
limiting development and "keeping
well looking like Orwell"—a favor
phrase. Young is a state representati
for Rutland and Addison counties,
part-time job in Vermont, and as
travel dirt roads past fields and
chards, he points to road-safety i
provements and state-park develo
ments he has promoted.

It's hard for me to believe that You
can just soldier on as he does, w
with the consolidation wave sweepi
the industry. Oh, he has been a
proached by private investors interest
in the bank. But Young and his fam
control 42% of the stock of First Nati
al, with the remainder held mostly
local people, and Young is not interest
in selling. He's happy just doing
work in Montpelier and tending to
bank. A wonderful life, indeed.

BY KELLEY HOLLA

Holland covers banki
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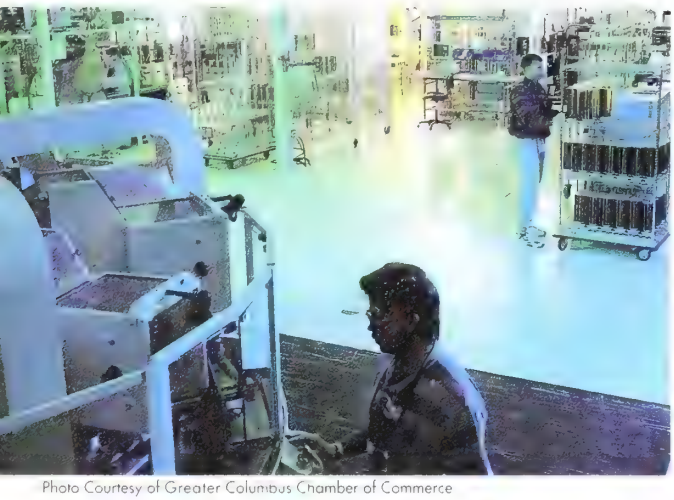

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Are we talking about computers? No, we're talking places to make them. That's right. Places.

Cities, counties, metropolitan areas, regions, states, nation-states, and Greater Everytown all desire to be a part of the coming deluge of high-technology manufacturing facilities.

High-technology companies, for their part, are seeking to find, or to establish, "centers of excellence." These centers of excellence are, in essence, cities where the products can be designed, manufactured, shipped, supported, and redesigned in a profitable environment with a quality of life pleasing to the employees. Also, it needs to be a place where the product of the manufacturing company is celebrated as a popular icon associated with the area, just like the beer of Milwaukee, the wine from the Napa Valley, the jazz of New Orleans, or the barbequed ribs of Kansas City.

When a large company finds such a nirvana with just the right balance of left/right brain characteristics, other high-technology firms follow with amazing speed. Motorola, for example, went into the cities of Phoenix and then Austin to manufacture high-technology products and soon found itself surrounded by other technology companies.

When that happens — and cities love it when that happens — it's called a cluster. For a city, there is no higher calling than to become a Mecca for a clean technology manufacturing cluster.

That's why cities are now locked into the same cost/performance competitive cycle that the computer industry finds itself. And just like computer companies, there is no shortage of new ones coming on to challenge the leaders.

Municipalities are offering to bare their souls, and their pocketbooks, paying dearly to attract high-tech plants where the future is being fabricated, not unlike those software companies that gave away a million copies of their software in order to generate word-of-mouth advertising.

"The electronics industry has been especially picky, looking for centers of excellence when selecting manufacturing sites," said Jim Semradek of Semradek & Co., Inc., a site selection consultancy. "Cities are now beginning to catch on to what that means."

What it means is that the price of admission is high, but the payoff is phenomenal, especially for the crown jewel of high-technology facilities — a microprocessor manufacturing plant.

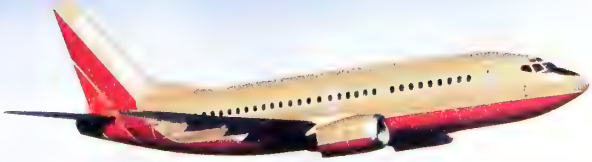
"Five thousand, maybe 10 thousand employees, and all of them pretty smart people, making a lot of money," pondered Saul Grohs, veteran site selection consultant with Fluor Daniels' Location Advisory Services in Morristown, N.J., "You can't imagine what kind of positive effect that can have on a city."

Municipalities are offering to bare their souls, and their pocketbooks.

"The direct jobs are just one part of it," Grohs said. "The bonus comes with other jobs, packaging, delivery, warehousing, maintenance, retail, and banking. The leverage of these kind of high-technology jobs is tremendous."

This is especially true if those multi-thousands of jobs are with major long-term player, such as IBM, Intel, or Motorola.

Richmond, for example, a city that up until earlier this year was perceived about as conservative and staid as the capital city of a state called "The Old Dominion" should be. Then Motorola dropped its bombshell announcement



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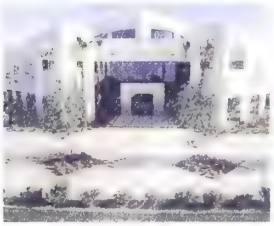
Nevada Attracts Industry Leaders



While most often identified as the gaming capital of the world. Nevada is also becoming home to a wide variety of internationally recognized corporations.

Bentley Nevada, Raytheon, Kloehn Company, Inc., Cubix Corporation, Lockheed MountainGate are just a few examples of industry leaders attracted to the Silver State.

The Kloehn Company, Inc., the world's second largest manufacturer of medical syringes and related products, relocated to southern Nevada from Orange County, California in 1994. Occupying 55,000 square feet and employing 118 at its new facility, the company develops, manufactures and distributes its products directly to original equipment manufacturers such as Hewlett Packard and Abbot Labs.

One year after the move, Kloehn knows it made the right choice. "The decision to relocate to Nevada was unquestionably correct. The corporate tax structure, affordable housing, clean air and schools were welcome benefits for both the corporation and the employees," says Michael Kloehn, executive vice president," and we already have plans for expanding operations within the next five years."

The key drawing factors for Nevada's popularity include the State's

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- Highly proficient workforce.

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about building its most advanced semiconductor manufacturing campus just 15 miles west of downtown.

This news, which shocked people in competing cities, will put Richmond on the semiconductor fabrication map with other cities such as Phoenix, Austin, San Jose, and Albuquerque.

"They were looking for quality of life, like good weather, a physically attractive area, cultural amenities, good schools, and recreation facilities, on the one hand," said Joe James director of the Office of Economic Development for the City of Richmond. "On the other hand, they needed proximity to university technology centers because it's a benefit to have faculty and students that are experts in a technology field."

If cities had eye teeth, they'd be glad to give them up for the plant announcement made by IBM-Toshiba in Manassas, Virginia. Twelve hundred jobs now, perhaps four thousand eventually, paying nearly $40,000 per year, making RAM chips.

"We had been told that Toshiba preferred a Portland, Oregon site while IBM preferred Manassas," said Roger Snyder, Director of Community Development. "The compromise resulted in a Toshiba-designed plant at the Manassas site. We are quite pleased with the compromise."

While Manassas is a much smaller community than most of those which are under consideration for plants of this size, its "greater" community is none other than the Greater Washington D.C. area.

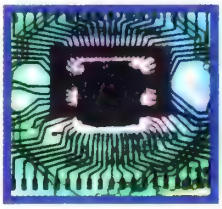
Washington and its fast-spreading suburbs have seen decades of federal installations and private businesses with federal contracts coming and going. Now, however, Great Washington has jumped into the comp itive fray, using its considerab resources to market itself as an enti region. The D.C. area boasts its intel gensia class, with more college degre per capita than any other region and t highest number of scientists and enginee

"No matter how you measure any of our communities, we look better when you examine the entire Greater Washington area," said Jack McLean, head of the new Greater Washington Initiative. "We have an enormous colle tion of high-technology companies, an they are doing a lot more than just gov ernment contracts," he said.

Michael G. Denick, project director of alliances for IBM's Microelectronic Division, explained why the Northern Virginia/Greater Washington, D.C. site was chosen.

"We chose the site in Virginia for three main reasons:

1) "IBM had an existing semicondu tor facility there. All the infrastructure needed to bring a facility up to speed quickly were already in place."



Greater Washington has jumped into the competitive fray, using its considerable resources to market itself.

2) "IBM has a history Manassas, dating back to '80s. We are familiar w the business landscape, governmental climate, a the available workforce."

3) "The facility is in clo proximity to an existing join venture (at IBM's facility in New York) but far enough away that the new business w be recognized as independer of the two parent companies will have its own identity and will supply the 64 DRAM chips to Toshiba and IBM," he said.

And while huge announc

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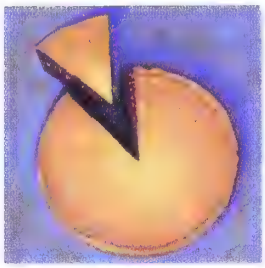

"I'm pleased to see Mississippi getting a lot of recognition lately. That recognition includes being named one of the top ten states in economic recovery by *U. S. News & World Report* and receiving top grades for financial stability from *Kiplinger's Personal Finance Newsletter*. To say this state is a good place for business is a true understatement. Litton Industries, our parent company, has invested billions in its facilities in Mississippi. You don't make that kind of investment unless the location is right and the support is strong. This state is succeeding in business recruitment because after the recruitment stage, the support remains."

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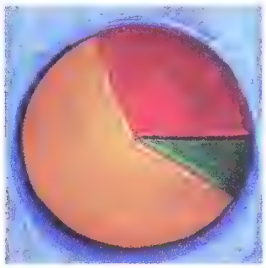

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ments are great for cities, what they really desire is to attract several like-minded companies and become the site of a high-technology cluster. These clusters often have an anchor at their center, such as a university, a major government research facility, or a private sector investment of huge proportions.

Photo Courtesy of Greater Columbus Chamber of Commerce

CompuServe's On-line service headquarters kept perpetually busy handling informatio needs of millions of users.

Cities on the hunt for high-technology jobs study the anchors of the past to generate ideas about what combination of lifestyle and hard assets made these places work.

Stanford University, for example, is perhaps the most well-known anchor, enabling the rapid expansion of Santa Clara County, California into what we now know as Silicon Valley.

Although Stanford still plays a role in making Silicon Valley a center of excellence, currently the role of the private sector army of companies, alliances and agreements, in this case, the industrial anchoring effect now outweighs the University's considerable influence.

Industrial lab anchors, less well known, but with even more history, are the General Electric Research lab in Schenectady, NY and the Eastman Kodak research facility in Rochester, NY.

Rochester is a good example of a cit where a cluster — in this case optics and imaging — grew out of private lab oratories, industrial research, and development. Wit more than 500 companies and 100,000 workers in the optics and imaging industry. Rochester has 60 percent of all ph tographic jobs in the United States.

While the exact date an optics cluster began forming in Rochester is hard to pin down, Bausch & Lomb began making eyeglasses there in 1852. Georg Eastman founded the Eastman Kodak Company there in 1880. The University of Rochester established th Institute of Optics in 1929. By 1945 when the Haloid Company, later to become Xerox, opened its doors, the area had been attracting German optics technicians for years.

Cities on the hunt for high-technology jobs study the anchors of the past.

Cities wishing to become known as centers of excellence don't always sit back and wait for high-technolog clusters to form serendipitously. They actually change their environment to make clustering companies more

ely to succeed.

The Greater Baltimore area is one he most dramatic of these examples. t content with the presence of Johns pkins, the National Institute of Health l the University of Maryland's research ilities to attract high-technology busi-ss, Baltimore raised money to establish Columbus Center, an innovative bio-hnology research facility.

Baltimore went several extra steps this process, putting the Columbus nter in its wildly popular Inner rbor district and actually allowing rists fresh out out the National uarium to "drop in" on working rine biologists.

"We have a 200 mile long laboratory led the Chesapeake Bay," said CEO Stan usler. "We put the facility right there where the scientists could see it and the visitors to the bay could see them."

Richard Carter, co-chairman of the environmental technology cluster effort for Arizona, loves to sing the praises of the cluster effect.

"When you get companies together in a cluster, you learn how big your industry presence is. But more importantly, you learn what your resources are," Carter said. "You expand your resources by these clustering businesses forming partnerships for various projects that singly they could never touch before," he said.

"Therefore, you get more of these projects because you have opened up a menu and a talent pool. That's the heart of a good cluster."

Centers of excellence can be spurred into existence by events as well as institutions. The closedown of the Strategic Air Command Headquarters in Omaha left a huge physical telecommunications structure in place, prompting the area to focus on telecom services and related industries. Today, Omaha is a vibrant hub of telecommunications activity.

Cities wishing to become known as centers of excellence don't always sit back and wait.

In a similar vein, Iowans are quick to remind their coastal competitors that the computer was invented at Iowa State University in Ames. That defining event has led

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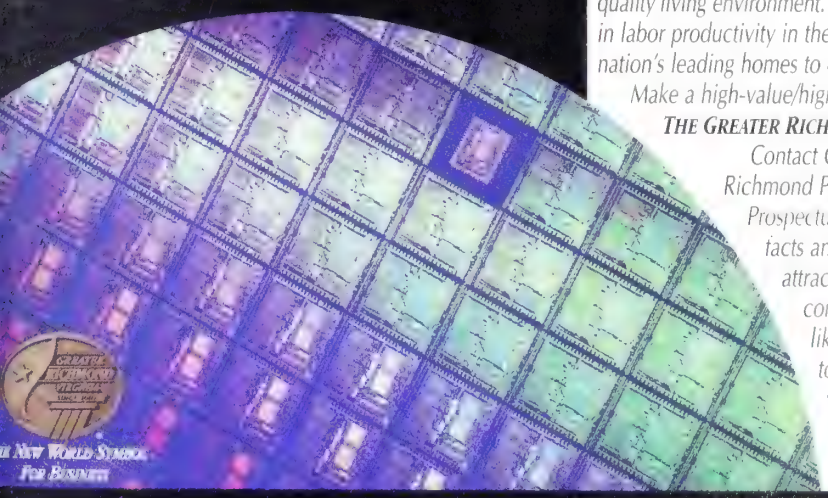

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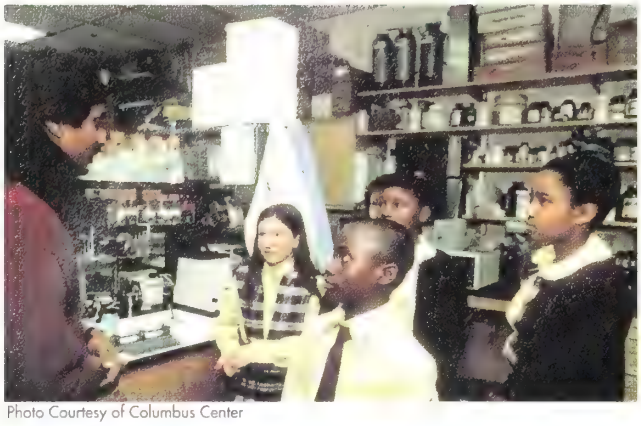

Photo Courtesy of Columbus Center

Columbus Center for Marine Biotechnology in Baltimore is a downtown research institution with a difference. Kids are encouraged to walk up and interact with marine biology researchers. The goal is to get kids interested, making a better future workforce.

Iowa to work hard to keep up in techno ogy, and form entities like the Center for Advanced Technology Development and the Institute for Physical Research and Technology at Iowa State to keep the development ongoing.

"The Institute's mission is to create the technological base for developmen of new prototype instruments, material and processes that will help foster eco nomic development," says Joel A. Snov

Competitive Positioning

If you are seeking to increase your competitive position by expanding into your own center of excellence, here are some things to look for:

Workforce availability If the unemployment rate is under four percent, there may be a labor shortage. Make sure the communities you target can provide you with detailed labor statistics.

Air Transportation Technology companies are keen on decent air service, mostly for the movement of their people rather than their product. Technology companies should factor how much air service they need to make those all important customer contacts and field location visits, then go with the best air service they can find — as long it it doesn't come with the traffic congestion and building density that sometimes comes with major hubs.

Educational Quality The quality of schools varies dramatically from state to state, even district to district. The quality of elementary and secondary schools is key for two reasons: First, the product of those schools is your workforce and you want the best you can get in a knowledge-based industry. Second, your bright workers are likely to demand a location with exceptional public schools. The annual Education Quotient, published by *Expansion Management Magazine*, indicates that schools inside a metro area can vary by as much as 50 percentile points.

Universities Universities are not critical to high-technology business success, but they are visibly involved in the most successful technology clusters in nearly every state.

Solid Finances If your new location offers any incentives, even future tax abatements, look into that area's record of maintaining a credible financial status.

Regional Cooperation Beware of squabbling municipalities. According to Rohit Shukla, technology specialist with the Los Angeles Regional Technology Alliance, "The real boundaries of this country are those of commerce, not those of political divisions." "A company may get its workers from one municipality, train them in another, get its water from still another, and be taxed by still another. It is critical that these areas work together," he said.

Technology managers are accustomed to making fast decisions, and therefore expect their suppliers, and their communities, to be equally fleet of mind. Leslie Parks, director of economic development for San Jose, California, says, "Larger technology companies want an area without extensive permit regulations. They are looking for a supportive business climate to get them through the process of building or expanding on a site."

Quality of life While weather and clean air are important factors, traffic is the biggest concern. If traffic is your hot button, there is no substitute for driving around at rush hour. *Places Rated Almanac* author David Savegeau says, "The golf courses and cultural activities might attract people to an area, but once they experience a 'no rush hour' community, you can't blast them out."

Connections Wired cities are more common than they used to be, but they are not yet ubiquitous. There is still a sizable gap between "haves" and the "have-nots" when it comes to having the electronic infrastructure technology companies demand.

"Many factors are specific to companies, although you have some commonalities: Quality of life, convenient air access, water available in measurable quantities, reliable electrical service at a reasonable cost, and an educated workforce," said Richard Clements of Oklahoma Gas & Electric. "These are all knockout factors. If you can't supply one, then your city or site is out of the running."

Institute's director.

Finally, some states have decided to ract high-technology companies nost by sheer will alone. New Mexico s been offering high-technology com- nies good incentives to move to the buquerque/Rio Rancho area and the ategy has paid off with locations by el Corp. for Pentium chip fabrication d headquarters for Intuit Software.

"They see a cooperative government the state and county level and we have de it possible for them to work at a y low cost while enjoying a produc- e and loyal workforce," said Robert os, director of the New Mexico vision of Economic Development.

Several cities for the past two months ve been casting their eyes on AT&T, o's recently announced further eakup might mean some expansion, nsolidation, or some relocation.

Much of AT&T's corporate structure s been based in New Jersey. At Jersey ntral Power & Light, which serves ree of the AT&T facilities, a team is eparing to go to work. Specifically, ey are intent on the industries identi- d in the New Jersey Master Plan for onomic Development, which are armaceuticals, biotechnology, elec- nics, data processing, and telecom- unications.

"In support of the New Jersey Master an we at JCP&L recently announced r business enhancement incentives," d JCP&L CEO Dennis Baldassari, who rved on the Master Plan Commission. hese incentives are structured in such vay that businesses that relocate and pand here and receive energy rate ductions," he said.

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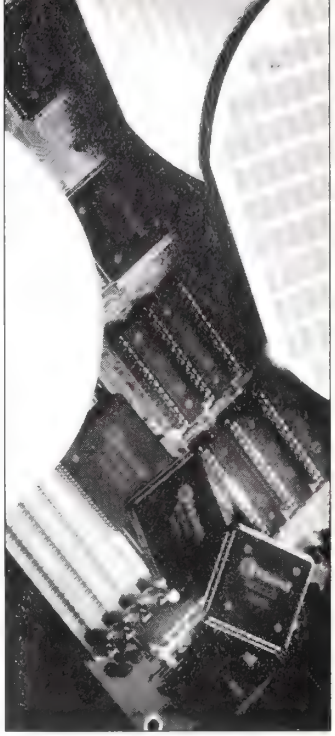
ck Wimer is the editor of pansion Management Magazine.



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JAMES C. COOPER & KATHLEEN MADIGAN

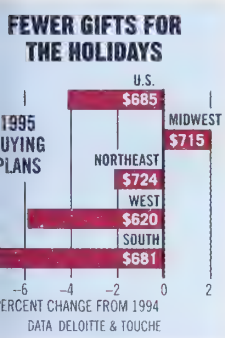
CHORUS OF 'HUMBUG' HIS HOLIDAY SEASON

U.S. ECONOMY

Store markdowns during the holiday season have become commonplace as mistletoe and fruitcake. With con- ers apparently losing interest in shopping in Octo- however, Christmas 1995 could prove to be espe- ly hard for retailers.

he holidays are critical for retailers because they ac- nt for roughly a third of annual sales and half of the r's profits. Judging by indications so far, households approaching the holidays cautiously (chart), and ns that are not discounted will get left on the shelf. t could be bad news for many companies, who are ady cash-strapped amid some of the toughest times etailing history (page 84).

etailers are not the only ones with a stake in holi- shopping. The level of activity in store aisles will affect manufacturers, not to mention the outlook inflation—a trend dear to the hearts of policy mak- at the Federal Reserve. Right now, sluggish con- ner demand and hints of excess inventories are nping factory activity and setting up conditions for day discounting that will keep inflation tame.



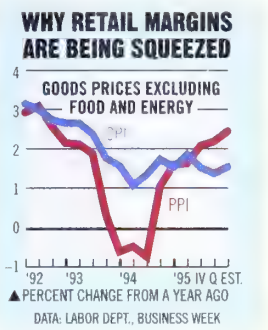
Altogether, the latest data suggest that the economy is struggling to grow above 2% this quarter. But coming after the 4.2% annual rate of increase in the third quarter, the economy's strains are not enough to push the Fed to lower interest rates—not yet.

The central bank kept the federal funds rate at 5.75% at its policy meeting on Nov. 15. Fed's inaction, however, reflected its wait-and-see tude toward the budget snafu in Washington. Key l members have said repeatedly that credible deficit uction must come before rate cuts. The Fed meets t on Dec. 19.

TH LUCK, the federal government will be back to rk by then. Not only are some October economic re- ts being delayed, but data collection for November orts, due out in December, is also on hold. That ld affect the quality and timing of those data as well. till, the Fed will keep an eye on the recent sluggish- s in consumer spending, which accounts for two- rds of the economy. What is clear from recent sur- s on holiday shopping plans is that gift budgets fairly modest this year.

One closely followed survey shows that consumers are planning to spend 4% less this year than in 1994, according to a query of 1,000 shoppers by Deloitte & Touche. That works out to $685 per household, on average, nationwide. Households in the South are cutting back the most, says D&T, with spending plans down 8%.

Why the ho-hum expectations? Some consumers are growing uneasy about job prospects. Jobless claims have been rising in recent weeks. Others took on massive amounts of debt over the past year. Repaying those loans is eating up a big chunk of incomes: A rising percentage of credit-card and mortgage debt is already delinquent.



The D&T survey of 500 retailers found that companies had brighter expectations for holiday buying than did households. However, a weak October may have dashed some of that optimism. Retail sales fell 0.2% in the month, and excluding autos, they were down 0.5%. Department stores and apparel vendors took the biggest hits.

THE OCTOBER PERFORMANCE says a lot about this quarter's consumer outlook—and it isn't good. In the past three years, fourth-quarter real retail sales have grown at an annual rate of about 10%, and in each year, the quarter's biggest gain occurred in October. This year, the October data indicate that retail volume started the fourth quarter up less than 1% above its third-quarter average.

November may be better than October for retailers. The D&T survey found that 28% of consumers plan to start their holiday shopping before Thanksgiving. And the *Johnson Redbook Report* says that sales at department and chain stores in the first two weeks of November were up a solid 2.2% from October.

The D&T retailer survey also found that stores hoped to keep holiday sales promotions to a minimum. But that's probably wishful thinking. Shoppers will do just what they did last year: Sit home watching *It's a Wonderful Life*—and waiting for bargains. That will force retailers to mark down merchandise.

That's why inflation could end the year lower than it was this past spring. Consumer prices for all items rose 0.3% in October, as did the core index, which excludes food and energy. Consumer inflation is on track

to rise about 2.7% in 1995, about the same as 1994's 2.6% rate.

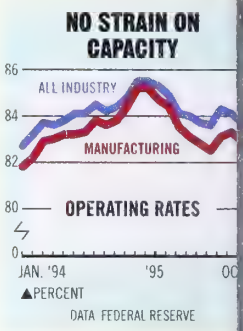
The prices for goods alone are up only 1.7% over the past year. That low pace is a big reason why the profit margins of so many retailers are suffering (chart, page 33). Before this summer, producer prices of consumer goods excluding food and energy—the cost to retailers for their merchandise—were increasing at a slower pace than were the prices that were paid by consumers.

Now, prices of consumer goods have slowed so much that producer prices of goods headed to retailers are rising faster than consumer prices. In the fourth quarter, the gap could be as wide as one percentage point. That will squeeze store margins even more. Moreover, stores are likely to cut back on their ordering next year, forcing cutbacks in factory output.

INDUSTRIAL PRODUCTION already looks pretty soft. Output in manufacturing, mining, and utilities fell 0.3% in October, after edging up 0.1% in September. The October weakness was exaggerated by the machinists' strike at Boeing Co., which by itself subtracted 0.2 percentage points from the month's output.

Even so, other industries also cut production, especially consumer goods. Automobiles and trucks accounted for half of the 0.5% drop in output of consumer goods, but other consumer durables, along with clothing and energy products, appear on the weak side as w

As a result, operating rates in all industry eas lower in October, falling to 83.6% from 84.1% in S tember. The rate in manufacturing dipped to 82. from 83.3%. Utilization rates are well below their rec peaks (chart). That's another sign that there is little any, upward pressure on goods prices.



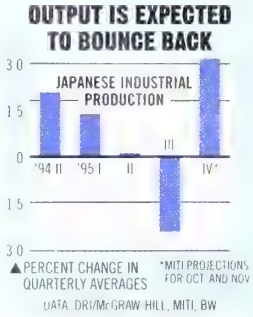
October's output weakness may well reflect surplus inventories in parts of the economy that will need to be worked off in the fourth quarter. Because of the government shutdown, however, the Commerce Dept. did not release its report on September business inventories as scheduled, but it has already said that manufacturing stock levels rose excessively in the month.

For now, it's not clear how heavy retail inventor were at the start of the holiday season. If stock lev are lean, then the need to discount will be less vere. If, however, stores head into the new year aw in unsold goods, the inventory adjustment could stre into early 1996. That's why holiday sales this year especially important, not only for retailers, but for economy.

JAPAN

QUIET RUMBLINGS OF RECOVERY

Amid the current focus on cracks in the banking system, deflation, and yen shock, it's easy to lose sight of the recent stirrings in the Japanese economy. To be sure, a full recovery is a ways off. However, upbeat signs in housing, capital equipment, and public works suggest that the worst is now past.



Some positive trends are even emerging in the household sector, so crucial to a sustained recovery. September retail sales posted a surprisingly solid gain, the second in a row, and quarterly sales grew at an annual rate of 4.9% from the second quarter. Housing starts, fueled by record low mortgage rates and rebuilding in quake-devastated Kobe, rose 6.6% in September, led by the core owner-occupied sector. Spending momentum is carrying over into the fourth quarter. Applications for government mortgages are rising, suggesting future gains in starts, and October car sales rose a solid 9% from a year ago.

These demand trends, if sustained, will support current plans to increase output and capital spending. Companies, especially manufacturers, have revised upward their spending plans for fiscal 1995—ending in March, 1996. As manufacturers restructure in response to past yen appreciation, their profit outlook is improving. The yen's recent weakening is helping to firm up prices at the wholesale level, but deflation is still squeezing nonmanufacturers.

Industrial production, although down in September, may have hit bottom. Manufacturers expect output in October and November to be 3% above the third quarter but with exports slowing, any recovery in production and employment will be slow. Also, inventories rose in September, and the ratio of stock levels to shipments remained above normal.

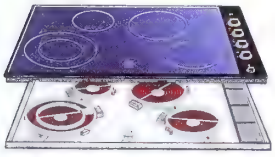
On Sept. 20, the government unveiled its 14 trillion yen ($140 billion) stimulus package, 8 trillion of which is earmarked for public-works investment. With the lift it should provide, the economy is ger erally expected to eke out growth of less than 1% in fiscal year 1995, followed by 2% or less in 1996.

e prudent acorn woodpecker bores small holes in trunks of dead trees to store an adequate food supply for the cold winter months to come.

Nature teaches creatures to provide for the future. It's an essential precaution for the acorn woodpecker. It's also an important lesson for today's industries. A company's success depends on its ability to identify future needs and invest well ahead of time.

After all, effective logistics depend upon timely investments

That's why Schott decided to invest in a production facility in the United States in 1989 for CERAN® glass-ceramic cooktop panels. With the flexibility to provide both our product and our technical expertise in the U.S., we can meet the individual needs of our American customers even more efficiently. This not only means shorter delivery time for this best-selling cooktop panel, but prompt service as well. If you would like to learn more about CERAN® glass-ceramic cooktop panels or find out more about the Schott Group of companies, write to: Schott Corporation, Dept. BW 4, 3 Odell Plaza, Yonkers, NY 10701.



The CERAN® glass-ceramic panel is the heart of the CERAN-TOP-SYSTEM®, developed by Schott in close cooperation with specialists in all areas of the cooking products field – from appliance manufacturers to cookware producers.

Maintaining our position as **a leader in special glass** is not enough. Our goal is to be a leader in customer orientation – **finding ways to take our customers further.**

SCHOTT

Total Customer Care

THE ECONOMY

WORKERS FINALLY GET THEIRS

From retailing to high tech, wage gains outpace inflation

Is the great wage drought finally over? All through 1994 and early 1995, corporate profits skyrocketed, with companies reporting quarter after quarter of record earnings. Unemployment fell to levels not seen since the late 1980s, as companies hired new hands. Yet with wages barely rising, many workers still found themselves losing out to inflation. The slogan for the recovery could have been: "Where's the beef?" Plenty of the nation's workforce griped that they could barely afford macaroni and cheese.

Now, relatively late in this recovery, America's workers, though not exactly flush with cash, may find themselves with a little spare change. There is hard evidence that a combination of rising productivity, falling prices, and tight labor markets is at last nudging real wages upward. According to a calculation by BUSINESS WEEK, 70% of full-time workers are in occupations that have seen real pay increases over the past year, compared with only 14% in 1994 (chart). Average hourly earnings, adjusted for inflation, rose at a 1.0% rate during the past six months, with increases stretching across virtually every sector of the economy. From high tech to retailing to finance, wage gains now are outpacing inflation.

To be sure, real wages still have not climbed back to where they were in 1989, before the recession started. But that may just be a matter of time if higher productivity continues to push up wages. "There is now a very gradual pressure on compensation," says Alan R. Schonberg, president of Management Recruiters International, a Cleveland recruiting firm with offices nationwide. "It's just beginning to manifest itself."

What has changed in recent months to propel wages higher? The unemployment rate is now just 5.5%, well below the level where wages historically have begun to accelerate (page 38). But unemployment was low in 1994 as well. The big difference: Productivity growth is surging. Nonfarm productivity has risen 3.4% this year, far ahead of the 1.9% gain in 1994. (The statistics will be revised in December, but the new numbers also will show accelerating productivity growth.) And rising productivity means companies can pay higher wages without having to boost prices.

SERVICES LEAD

*Increase in hourly earnings during past six months, inflation-adjusted**

ALL PRIVATE WORKERS	1.0%
ALL SERVICES	1.1
MANUFACTURING	-0.3
TRANSPORTATION AND PUBLIC UTILITIES	2.2
WHOLESALE TRADE	-0.1
RETAIL TRADE	1.8
FINANCE, INSURANCE, AND REAL ESTATE	1.5

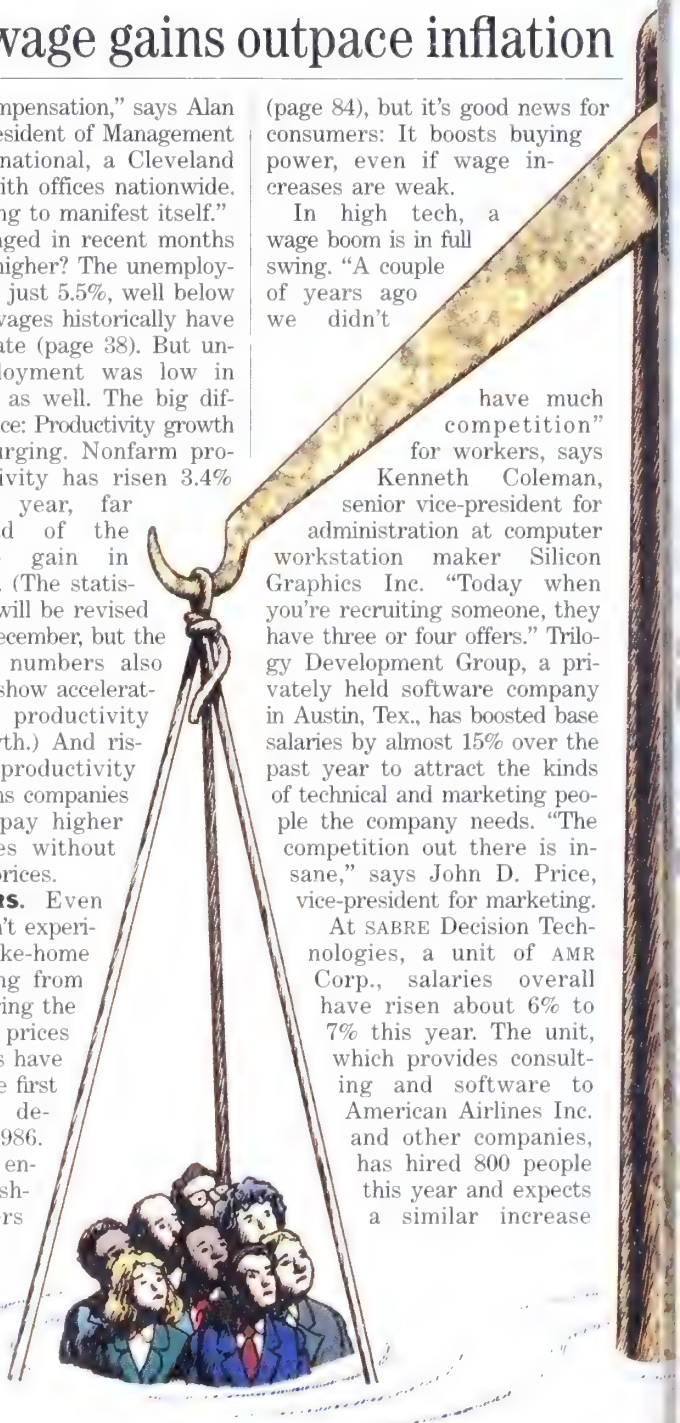
*Production and nonsupervisory workers

DATA: BUREAU OF LABOR STATISTICS, BUSINESS WEEK

MULTIPLE OFFERS. Even workers who aren't experiencing higher take-home pay are benefiting from lower prices. During the past year, retail prices for nonauto goods have fallen by 0.4%, the first year-over-year decrease since 1986. That may not be encouraging for cash-starved retailers (page 84), but it's good news for consumers: It boosts buying power, even if wage increases are weak.

In high tech, a wage boom is in full swing. "A couple of years ago we didn't have much competition" for workers, says Kenneth Coleman, senior vice-president for administration at computer workstation maker Silicon Graphics Inc. "Today when you're recruiting someone, they have three or four offers." Trilogy Development Group, a privately held software company in Austin, Tex., has boosted base salaries by almost 15% over the past year to attract the kinds of technical and marketing people the company needs. "The competition out there is insane," says John D. Price, vice-president for marketing.

At SABRE Decision Technologies, a unit of AMR Corp., salaries overall have risen about 6% to 7% this year. The unit, which provides consulting and software to American Airlines Inc. and other companies, has hired 800 people this year and expects a similar increase

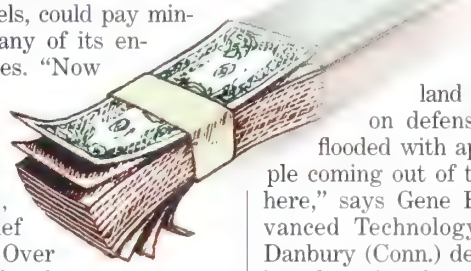


t year. "We're often having some-
y come into my office and say, 'We
lly love working
e, but I have this
r for a 40% raise
a 60% raise.
n you do

anything about it?'" says Thomas M. Cook, president of SDT. "I don't see a softening in the marketplace."

That's true even for freelancers, if they have the right kinds of technical skills. During the past year, wages have risen by almost 9%—far more than inflation—at MacTemps, a Cambridge (Mass.) temporary-help company that places many desktop-publishing professionals.

Even less skilled workers are seeing higher pay. Not too long ago, Marcus Corp., a $278 million franchise operator of KFC restaurants, owner of movie theaters, and owner and franchiser of Budgetel Inn motels, could pay minimum wage to many of its entry-level employees. "Now there's very little minimum wage left in our operations," says Stephen H. Marcus, chairman and chief executive officer. Over the past six months alone, wages have gone up about 4% to 5%, notes Marcus.



Labor markets are tightest in the Midwest, where the unemployment rate is only 4.3%. Principal Financial Group, a big Des Moines-based insurer, has boosted salaries 6% to 7% over the past year to find entry-level computer programmers. Yet wages are rising all over the country. In the Phoenix area, hourly wages for retail sales positions rose by 11% during the past year. "We have huge pressure on the lower-level positions," says Sybil Goldberg, president of Spectra International, a human-resources firm in Scottsdale, Ariz. Even in the sluggish New York region, the pool of qualified applicants for accounting and secretarial jobs has tightened in 1995.

The entertainment boom is helping raise pay in California and Florida. In the Hollywood movie industry, hourly earnings are up by 15% over the past year. And a shortage of qualified applicants is helping push up salaries for entry-level supervisors at Universal Studios Florida, the Orlando theme park.

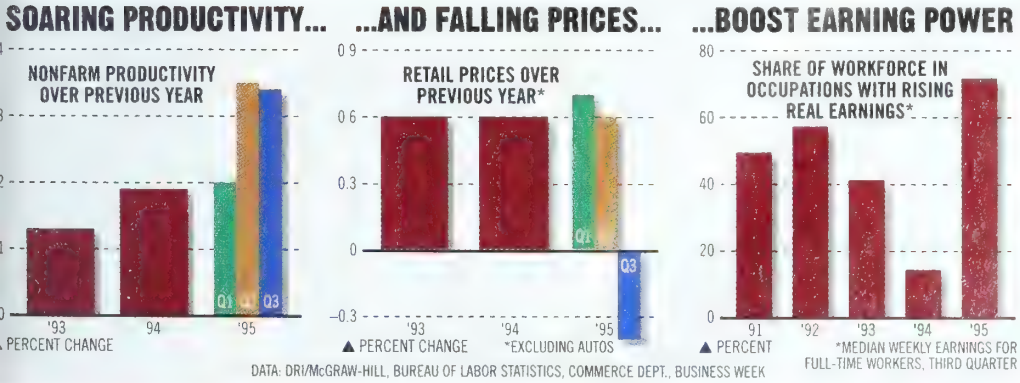
There are some areas of the economy where wages are still lagging. Real compensation in manufacturing fell last year in the face of global competition and continued job cuts. On Nov. 14, for example, 3M announced that it would cut 3,000 U.S. jobs as part of an effort to reduce costs. And ongoing cuts in military spending are holding down wages in regions such as Southern California and New England that were dependent on defense jobs. "We're still flooded with applications from people coming out of the defense industry here," says Gene Banucci, CEO of Advanced Technology Materials Inc., a Danbury (Conn.) developer of diamond-based semiconductors.

BONUS STRATEGY. Is this leading to higher inflation? Not so far. Productivity is still rising faster than wages. What's more, benefit costs are increasing at only 2.2% annually, their slowest rate on record, as companies get a handle on medical costs. This provides room to pay higher wages without triggering inflation.

Companies are also trying hard to keep their wage costs under control. One way is to pay bonuses, rather than raise base pay. In 1995, bonuses and other incentive pay rose by a third for nonunion hourly workers, according to a recent survey by compensation consultants Hewitt Associates. Managers and professionals received similar gains. If times turn bad, companies can more easily cut bonuses.

Moreover, workers are looking for stability and good opportunities as well as higher wages. "If you just play the salary game, you lose," says Coleman of Silicon Graphics. "Ultimately you have to capture the hearts and minds of people." True—but a nice increase in wages doesn't hurt.

By *Michael J. Mandel in New York, with Wendy Zellner in Dallas, Richard A. Melcher in Chicago, and bureau reports*

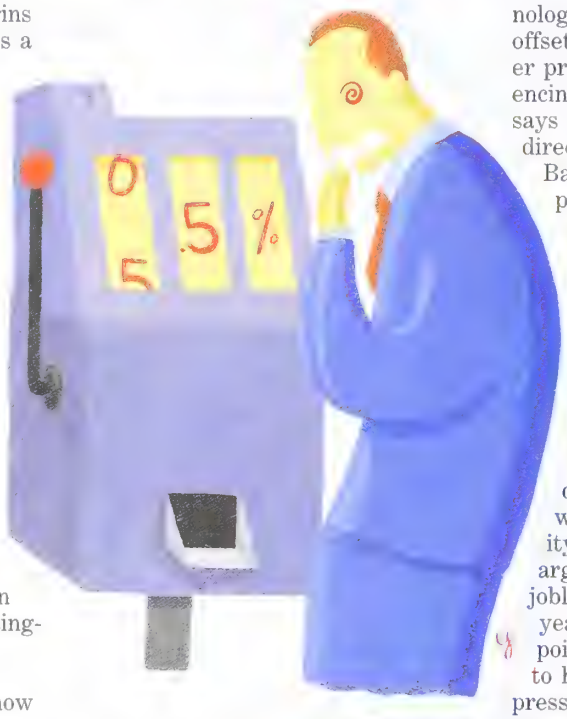


DATA: DRI/McGRAW-HILL, BUREAU OF LABOR STATISTICS, COMMERCE DEPT., BUSINESS WEEK

CAN THE ECONOMY STAND A MILLION MORE JOBS?

Among the monetary mandarins at the Federal Reserve, it is a long-held dogma that too much employment can be a dangerous thing. That's because Fed officials—and most private economists—believe that when the jobless rate dips too low, employers are forced to bid up wages to attract the best workers. With payrolls representing two-thirds of business costs, inflation is certain to rise.

At what point is unemployment too low? Conventional wisdom at the central bank pegs the threshold at about 6%, based on past business cycles (chart). But there is growing evidence that the Fed may be overestimating this crucial pressure point—known in econospeak as the "nonaccelerating-inflation rate of unemployment" (NAIRU).



The proof: The jobless rate, now 5.5%, has been below 6% for 14 months. The employment cost index, which measures wages and salaries, rose just 2.8% over the past year, vs. 2.9% during the preceding 12 months. And recent wage hikes seem to be offset by productivity increases. "In every business cycle, there are conventional wisdoms that prove to be myths—and the 6% NAIRU is proving to be a myth," says Allen L. Sinai, chief economist for Global Economic Advisers of Lehman Brothers Inc. He pegs the current NAIRU at 5.2%.

NAIRU LOBBYING. If Sinai is right, that means the economy can accommodate a million more jobs. A lower NAIRU could encourage Fed Chairman Alan Greenspan to cut the Federal Funds rate, which banks charge each other for overnight loans. But the Federal Reserve chief has yet to be convinced. The Federal Open Market Committee he heads declined on Nov. 15 to lower the Fed Funds rate from 5.75%. That's an unusually high level for the rate during a period of such low inflation.

It's not that some economists haven't been lobbying the Fed to plumb for a lower NAIRU. But with the economy running at capacity, Greenspan and his allies have kept to a slightly restrictive policy for fear of losing their hard-fought victories in keeping inflation under control. "I don't think the Fed ought to be conducting experiments like this," says J. Alfred Broaddus Jr., president of the Federal Reserve Bank of Richmond, Va. NAIRU "is not a toggle switch," adds Federal Reserve Governor Lawrence B. Lindsey. "Inflation can still come into the system."

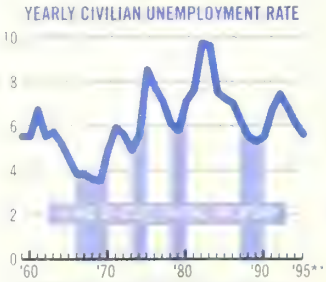
Indeed, there are some new signs that real wages are finally beginning to climb again after years of stagnation. Even so, Fed insiders generally believe wage pressures that could drive up inflation remain restrained. Fed economists cite structural changes in the labor market—such as a larger global pool of workers—and heavy capital spending on labor-saving technology. That allows employers to offset any wage increases with higher productivity. "We may be experiencing a positive supply-side shock," says Harvey Rosenblum, research director at the Federal Reserve Bank of Dallas. "It has made me pause and wonder if NAIRU is lower than we thought."

Rosenblum and a few other Fed officials are warming to the idea that the NAIRU may be 5.5%. But Fed Vice-Chairman Alan S. Blinder, a former economic adviser to the Clinton Administration, says the threshold may even be lower than that. "There's not enough data to change my mind, but I would not rule out the possibility," he says. Another Fed official argues that for every point that joblessness is below NAIRU for a year, inflation rises just a half-point—leaving plenty of time to head off any emerging wage pressures.

BIGGEST SKEPTIC. Despite growing comfort at the Fed with the current jobless rate, Greenspan remains the biggest skeptic. Fed watchers say that he still doubts the economy can handle unemployment lower than 6% without triggering wage pressures. Greenspan hinted as much in an Oct. 19 speech, noting that while the downsizing trend has left employees docile, at some point "workers will perceive that it no longer makes sense to trade off wage progress for incremental gains in expected job security."

HOW UNEMPLOYMENT AFFECTS INFLATION

YEARLY CIVILIAN UNEMPLOYMENT RATE



*CONSUMER PRICE INDEX LESS FOOD AND ENERGY
**AVERAGE THROUGH OCTOBER
DATA: FEDERAL RESERVE BANK OF KANSAS CITY, ECONOMIC REPORT OF THE PRESIDENT, BUSINESS WEEK

With the expansion in its fourth year, it's hard to quibble with the Fed chairman's caution. Still, with unemployment and inflation both remaining at such low levels, it may be time for Greenspan to shake off his NAIRU jacket and give labor markets some more room to move.

By Dean Foust in Washington

EWT'S FINGERS GET AUGHT IN THE SHUTDOWN

ıe GOP may win the budget battle–but lose public support

or months, House Speaker Newt Gingrich (R-Ga.) has dared President Clinton to make his day by sing down government in a clash of ls over a balanced budget. By vetoing bills to keep the government runıg while budget talks continue, Clinı has taken the Speaker's bait. So y do Gingrich and other GOP leaders k so down-in-the-mouth?

The answer is summed up in two rds: Medicare meltdown. By permitg Clinton to poray Medicare cuts the core of their cal-reform drive. publicans have ened themselves for a public pumling. By nearly a o-1 margin, polls ow, Americans me the GOP Coness rather than President for the vernment's Nov. shutdown. That ans Gingrich's dget strategy ms as a major nder for the norlly surefooted Speaker.

Still, the budgetary impasse does hold ne good news for Gingrich & Co. Dete his GOP-bashing over Medicare, nton is moving closer to his oppoıts' position on key budgetary issues. has already offered to trim Medicare owth by $140 billion over seven years d cut taxes by nearly $100 billion. d on Oct. 19, the President said he ght be willing to accept the Republiı goal of a balanced budget in seven ars. When the rhetoric cools, a final al is likely to give the GOP nearly erything it wants: slower growth in edicare, a big tax cut, welfare reform, d a balanced budget—or something ry close to it—by 2002.

REE FALL." Such an accord isn't likely come together much before Christıs. In the meantime, GOP budgeteers taking a pasting. "Republicans are in e fall," says conservative pollster Gorn S. Black. Adds Patrick H. Arbor, airman of the Chicago Board of Trade: ı my personal view, Republicans are strident. They're holding the Adnistration hostage." The PR pounding hasn't gone unnoticed on Capitol Hill: "We're getting killed," groans a top GOP congressional aide.

Much of this agony is self-inflicted. First, Republicans linked the fate of a temporary government funding bill to an increase in Medicare premiums. By the time they withdrew their demand on Nov. 15, the damage to their image had been done. A GOP attempt to corner Clinton by threatening a default on the national debt failed on Nov. 15 when Treasury Secretary Robert E. Rubin tapped civil-service retirement funds to keep paying investors through December. And by failing to meet their deadline on the budget and most of the 1995 spending bills, Republicans reinforced the view that Congress can't walk and chew gum at the same time.

STALEMATE
By successfully portraying the Republicans as Medicare slashers, the President is reaping big political gains

But Gingrich has a point when he snipes at the White House's "pure demagoguery." These days, Clinton never mentions his own proposal to slow the growth of Medicare. Instead, he blandly vows to balance the budget while protecting mainstream American values. "It's political strategy to get reelected," says Birmingham Steel President James A. Todd Jr. It's also working: "At least Clinton appears Presidential," Todd says.

Clinton's new hardball strategy is not without risks, however. If the stalemate continues—and talks were stalled as of Nov. 15—the President risks a backlash. "It's bound to increase the disillusionment and fury over how this country is run," says Joseph P. Sullivan, chairman of Chicago-based Vigoro Corp. Americans fear deep GOP spending cuts, yet they're furious with Washington for partisan backbiting. "People are not sympathetic to these political squabbles," says Haggar Chief Financial Officer Ralph A. Beattie. "This will intensify calls for a third party."

POLICY VICTORY. Voter wrath is driving Clinton, Gingrich, and Senate Majority Leader Bob Dole (R-Kan.) toward a long-term deal. When the smoke clears, the President still is likely to sign a dramatic budget bill. The probable outcome: sharp deficit reduction by 2002; Medicare reforms that will slow the program's growth by about $200 billion—splitting the difference between Clinton's $140 billion plan and the GOP's $270 billion package; and a tax cut of roughly the same amount, which would also represent a compromise between the GOP's $240 billion package and the White House's $100 billion version.

Clinton will resist GOP efforts to slash the Earned Income Tax Credit for the working poor. But he is likely to accept a toned-down version of the rest of the tax package, which congressional Republicans adopted on Nov. 15. That measure provides a $500 credit for families with children, cuts capital-gains taxes from 28% to 19.8%, and expands individual retirement accounts.

In policy terms, such a deal would be a solid GOP win. But in the battle of perceptions, it's another story. A President once dismissed as powerless may emerge from the budget brawl stronger. And that can only help all Democrats in the fall election.

By Howard Gleckman, with Richard S. Dunham in Washington, Stephanie Anderson Forest in Dallas, and bureau reports

THE GOP TAKES THE HIT

Who is to blame for the budget impasse?

CLINTON	27%
REPUBLICANS IN CONGRESS	46%
BOTH	20%
NEITHER	2%
NO OPINION	5%

DATA: *WASHINGTON POST*/ABC NEWS SURVEY OF 1,005 ADULTS CONDUCTED NOV. 10–13

RECRUITING

COLIN POWELL: FOUR-STAR CEO?

He's hot, but battle ribbons don't always spell corporate glory

He may not have the fire in his belly to mount a Presidential drive. But Corporate America is hoping that a tingling in his wallet may yet drive Colin L. Powell into a boardroom career. Powell's Nov. 8 decision to forgo a White House run disappointed admirers, including many business leaders. But that has only fueled a new frenzy among others who are angling to convince the former general to carve out a private-sector career. "He's a hot property," says former Reagan Administration personnel czar E. Pendleton James, who heads a New York executive search firm. "There isn't a corporation in America today that wouldn't love to have Powell sit at their table."

THE GENERAL *is facing a new draft*

Since his retirement two years ago, Powell has received more than 100 requests to serve on boards. Recruiters say clients are salivating at the prospect of nabbing Powell. The general "has great judgment, common sense, and a skepticism that would be healthy on any board," says Brent Scowcroft, George Bush's national security adviser while Powell was chairman of the Joint Chiefs of Staff.

Even as companies press Powell to accept their lucrative offers, they ought to mull the decidedly mixed track record of other militarists turned capitalists. Battle ribbons, it turns out, are lousy indicators of corporate glory.

A POOR FIT. Many well-known soldiers end up being mere decorative epaulets for companies. Douglas MacArthur, for one, was a lackluster chairman of Remington Rand. "What they really wanted was his connections," says Indiana University historian John K. Stevens. Alexander M. Haig Jr. gets kudos for his brief stint as president and chief operating officer of United Technologies Corp., but his service as a director didn't prevent Chapter 11 filings by Leisure Technology Inc. and Allegheny International. Boards "are only as effective as the management allows them to be," responds Haig. Bobby Ray Inman provided early leadership for Microelectronics & Computer Technology Corp., but the former Defense Intelligence Agency chief's command-and-control background was ill-suited for the collaborative high-tech consortium.

Some military heroes turn out to be disasters in private life. Andrew Jackson lost his shirt in real estate. And after Civil War General Ulysses S. Grant backed his son's investment firm, it went bust—and he lost both his and other investors' money to swindlers. "He hi the biggest collection of crooks f friends and relatives of anybody in h tory," says historian Charles J. Tull.

There have been successes as we of course. Charles R. "Tex" Thornto who invented statistical controls f tracking the military's resources duri World War II, helped build Litton I dustries into a corporate titan. Sin larly, Lucius D. Clay, the military World War II procurement chie worked to transform Continental C Co. into the industry leader. And W liam G. Pagonis, the logistics hero the Persian Gulf War, wins praise f improving Sears Roebuck & Co.'s di tribution network.

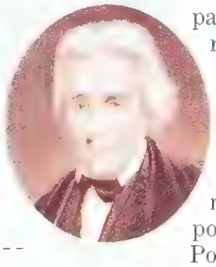
MILLION-DOLLAR QUESTION. Powell ce tainly has many of the qualities of h military predecessors: stature, intern tional experience, and intimate know edge of Washington. Top military m have "spent a lot of time thinking abo leading big organizations," notes Robe N. Burt, chairman and chief executive FMC Corp., which recruited form Army Chief of Staff Edward C. Mey as a director. Meyer's understanding the Pentagon's future needs helped FM "concentrate our research efforts," not Director and former Chairman Robe H. Malott.

Will Powell sign on? H passed up offers from corpora recruiters while he wrote h memoirs and weighed a Whi House bid. But "with t book behind him, that cou change," says aide Peggy C frino. Still, several Powell in mates doubt he'll take the co porate plunge any time soo Powell chum Frederic V. Male chairman of Thayer Capital Par ners, says the general would a good director but not a goo executive. "He has no busine experience," Malek says. Ma of Powell's friends doubt would even accept a board po With a $6.5 million advance fro his book, now in its sixth prin ing, and speaking fees of mo than $50,000 a pop, he doesn need the money.

In the end, Powell might r ject any and all corporate come to pursue charitable activitie The upshot? Executives cou be as disappointed by the la est round of Powellmania they were by the first.

By Stan Crock and Ma Beth Regan in Washington, wi Richard A. Melcher in Chicag

From Militarist To Capitalist



ANDREW JACKSON

- General, War of 1812
- Real estate speculator; lost heavily when land prices sank

ULYSSES GRANT

- Head of Union forces, Civil War
- Promoted and invested in son's investment firm
- Firm collapsed after son's partner stole funds; Grant bailed family out by writing memoirs

ALEXANDER HAIG

- Supreme Allied Commander, Europe
- COO, United Technologies; director, Allegheny and Leisure Technology
- Performed well at UT, but quit after 13 months to become Secretary of State; Allegheny and Leisure filed for bankruptcy protection

By Paul Magnusson

A GOOD IDEA—BUT HMOs DON'T WANT US TO TRY IT

andy Velting wasn't going to let some torn knee ligaments keep him off the basketball court. So e got his damaged knee repaired y the best surgeon he could find. nly trouble was, Velting, 44, ound up paying more than half the 1,675 bill after his Blue Cross/Blue hield insurance plan decided the mount wasn't "reasonable and cus- omary." But Velting, a partner at oncord Management, got his re- enge. He helped persuade fellow artners at his Michigan property- anagement company to adopt a Iedical Savings Account.

With MSAs, a company establishes pool of cash to cover routine ealth costs. A high-deductible in- rance plan kicks in on major xpenses. At Concord, for in- ance, all employees get 2,000 deposited yearly ito an account to be used r medical bills. Most ex- enses over that are cov- red by an insurance plan lso paid for by Concord. "It osts the company no more an before, but now we an shop around, choose our wn doctors, and get it paid for," elting says.

His experience shows why Repub- cans are right to be pushing two rovisions to encourage Medical Sav- ngs Accounts. One would make MSAs ligible for the same tax exemptions iven traditional forms of medical in- urance. The second would allow eld- rly Medicare recipients to choose an ISA for themselves as one of several ptions.

QUAL FOOTING. Unfortunately, pow- rful forces are arrayed against the ffort. Foremost are lobbyists for anaged-care health plans. "Man- ged-care companies aren't happy vith the idea that someone is going o take away some of their business fter they just spent the last two ears convincing employers that anaged care is the only way to go," xplains Arthur J. Drechsler, senior ice-president at benefits consultant Segel Co.

Moreover, managed-care compa- ies are backed by Democrats, such s Senator Edward M. Kennedy (D- Iass.) and Representative Pete Stark (D-Calif.), who prefer a government takeover of all health-care spending. Stark warns darkly that MSAs could "threaten the health-insurance system across America." The pair hope to use a last-minute parliamentary ploy to delete the provisions from the GOP budget plan.

Opponents of the accounts ought to back off. MSAs need to be given a test run on an equal footing with tax-advantaged managed care. After all, workers like the accounts because they are portable and offer the widest possible choice of doctors. Doctors like them because it eliminates a layer of bureaucracy between them and the patient. Economists like them because they encourage patients to seek low-cost care.

So what's the downside? Some consumer groups warn that workers will squander their medical accounts on other expenses—such as vacations. But employers who have tried MSAs report that workers aren't so stupid. After Dominion Resources Inc., a Richmond (Va.) utility holding company, offered a medical-account option four years ago, 87% of its 245 workers made the switch from managed care. "Anytime people are spending their own money, they are just going to be more prudent," says Anne Grier, the company's human-resources manager. Besides, under the proposed law, private MSAs would be treated much like retirement accounts—spend the tax-free benefit on health care or roll it over tax-free into next year's account. Spend it on a Caribbean cruise and you would wind up facing income taxes and a 10% penalty.

"SMART CARDS." Another argument against the plans is that MSAs may wind up costing the government more money and raise overall private spending on health care. The Congressional Budget Office figures Medicare costs could rise by $3.5 billion over seven years with MSAs.

Others insist they will lead to savings. In addition to giving consumers incentive to shop more carefully, one Indianapolis company, Eclipse Consulting Group, is betting the accounts can help save billions in administrative costs. Beneficiaries would carry Eclipse's "smart card" with a computer chip containing medical records and account information and linking the employer, insurance company, and provider. A patient with Eclipse's card could simply debit his MSA account at the doctor's office or pharmacy.

In fact, while bureaucracy-loving Washington dithers, the states already have caught on. Fifteen have passed laws encouraging employers to provide MSAs. Whether the new accounts will save money can't possibly be known until the legislation is passed and consumers have a chance to use them. Besides, beyond cost, Congress has vowed to provide Americans with a choice in who provides and administers their health care. Providing competition to the growing managed-care monopoly would do much to help legislators keep that promise.

Medical Savings Accounts provide a choice of doctors, cut a layer of bureaucracy, and encourage savings

Paul Magnusson covers economic and social policy from Washington.

TELEVISION

A REALLY BAD DAY AT BLACK ROCK

CBS's woes are enough to make a Westinghouse CEO weep

You're Westinghouse Chairman Michael Jordan. You're on the verge of closing a deal for CBS for $5.4 billion. How do you unwind?

Pardon the 59-year-old executive if his first choice isn't tuning in to a CBS show. The crew at *60 Minutes* is still fuming over a network decision to yank a segment critical of the tobacco industry for fear of litigation. Most of the network's fall lineup has been panned by the critics. And late-night host David Letterman has taken to trashing his CBS Inc. bosses almost every night. What's a good reason, Letterman asked on a recent program, to shut down the government? "With a million government workers at home, maybe one or two will watch CBS."

WHY ARE THESE MEN SMILING? *Letterman and Tisch at the home office in New York*

Not many other people are tuning in. Two months into the current season, CBS's prime-time lineup is drawing 20% fewer viewers than in 1994. Operating earnings through the first three quarters are down 98%, even though ads are at a cyclical peak. And an effort to lure young viewers flopped so badly that CBS executives have scrapped virtually the entire Friday night schedule.

SICK NET. Can Westinghouse Electric Corp., whose power-generation business is so sick that it helped saddle the company with a $52 million third-quarter loss, revive the onetime Tiffany Network? Westinghouse executives, awaiting final regulatory approval by the Federal Communications Commission, aren't talking. Still, burdened with $8 billion in debt after the CBS purchase, Westinghouse has to move quickly to show some results from its pricey acquisition.

That will mean slimming down. The company plans to sell divisions, possibly its Power Generation and Energy Systems units, to help pay down debt. And sources close to Westinghouse say it aims to improve its station groups, which provide some 80% of CBS's cash flow. Seagram Co., whose Universal Pictures unit needs an outlet for production, is rumored to be talking to Westinghouse about investing in CBS. Management is also counting on higher ratings to boost CBS's cash flow by $200 million to $300 million. But experts are, at best, skeptical. "None of that will happen soon," says Smith Barney Inc. media analyst John Reidy. "This is a problem that will take a long time to fix."

That's for sure. The CBS station lineup, its link to the outside world, is the sickest among the Big Four. The defection of eight stations to Fox Broadcasting Co. in 1994 left CBS with lower-powered UHF stations in key markets such as Atlanta and Detroit, so CBS now reaches an estimated 1 million fewer homes. And unlike the other three networks, CBS has virtually no channe feed the fast-growing cable-TV ma

With football lost to Fox, ratings eroded for the Sunday night CBS stan *60 Minutes*. The loss of promotiona portunities on Sunday afternoons h other shows as well. The ratings has angered Letterman, who rece hinted he wouldn't mind leaving the work that pays him $14 million annu "My next trip—ABC," he joked afte turning from a week of broadcasts Los Angeles designed to boost his ings. To block such a move, CBS may ercise an option this summer in Le man's contract to keep him until 20

"DO IT FAST." By then, CBS coul the industry's fourth-rated network its 10 new shows this season, only Monday night comedy *You Can't H Love* is a hit. Despite hefty promo such new shows as *Central Park* and *Courthouse* flopped miserably. occasionally trails Fox in total vie ship and decisively trails the ups network among the younger vie advertisers want. "The loss of you viewers will kill CBS's comeback," media buyer Paul M. Schulman. "W NBC came back in the '80s and AB the '70s, they had a core of you [demographics] to give them a boo

For now, that leaves it up to hi respected Leslie M ves, who joined CBS spring from Wa Bros. as head of the tertainment unit, to youth-oriented sh that will stand u Fox and ABC. Sou say he is talking to folks at DreamW SKG about creating programming.

Until then, tho Jordan and company have to patch up v remains of CBS's bru eye. Westinghouse negotiating to re broadcast group head Peter A. L whose contract allows him to leav Tisch sells the network. And the affili are pressing Jordan to pour more m into promoting their programs. "Wha er they do, they had better do it f says Ralph Gabbard, president and eral manager of CBS affiliate WKYT-T Lexington, Ky., and head of the work's affiliate group. "Right now, the killing us." Maybe Michael Jordan sh keep his remote handy.

By Ronald Grover in Los Ang with Stephen Baker in Pittsburgh Mark Lewyn in Washington

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BANKING

'I'LL SEE YOU AND RAISE YOU $100 MILLION'

Why Wells Fargo could win the poker game for First Interstate

During their annual retreats in the bucolic Napa Valley, Wells Fargo & Co. executives regularly stayed up until the wee hours playing a riverboat card game called *bourré*. Colleagues remember Paul Hazen, now chief executive of the $50 billion-in-assets bank, as a fierce player who did not shy away from the big bet. "He had a distinctive way of playing," recalls former Wells Vice-Chairman David Petrone. "He was a little more of a gambler than the rest of us." John F. Grundhofer, a senior Wells executive and another aggressive player who left in 1990 to become CEO of Minneapolis' First Bank System Inc., was often an opponent.

GAMBLIN' MAN
Wells CEO Hazen is betting that a deal will bring investors continued high returns

These days, those two executives are sitting across a table with much higher stakes, and competing just as fiercely. Battling for control of Los Angeles-based First Interstate Bancorp, Hazen made a third hostile offer on Nov. 13 at $137.50 per share, or $10.4 billion, topping Grundhofer's friendly $10.3 billion, $135.85 per-share deal announced Nov. 6, and Wells's original Oct. 18 hostile bid of $128.90 per share. Hazen also laid the legal groundwork for a proxy fight.

Little known outside of Wells when he took over the CEO slot a year ago, Hazen, 53, had to up the ante to continue the high returns investors expect from Wells. He needs the massive cost savings and asset growth the deal would provide. "This is the best opportunity for Wells to grow longer term," says Donaldson, Lufkin & Jenrette Inc. analyst Thomas K. Brown. "If they lose, the best acquisition would be gone."

LOFTY RETURN. A Wells-First Interstate combination would be the largest bank deal in U.S. history. And for Hazen, Wells watchers say, the struggle over First Interstate has become a personally defining moment. Most of his career has been spent playing second fiddle to the renowned Carl E. Reichardt, the swaggering Texan who turned San Francisco-based Wells into one of the nation's toughest and most successful banks.

"I believe firmly we are going to succeed at FI," says Hazen. "The longest it may be is a four- to six-month time frame." Wells is promising $800 million in cost savings, $300 million over First Bank's offer, thanks in large part to overlap in the banks' franchises. Wells likely will eliminate 2,000 more jobs than Fi Bank, cut more occupancy costs, a streamline the retail businesses. Sor 300 California branches could be close Wells estimates that acquiring Fi Interstate will add only $1.2 billion costs, $500 million less than First Ba projects. And it is promising shareholde a lofty 26% increase in return on their vestments in 1997 (table).

Whether Hazen's gambit su ceeds depends in part on inve tors. So far, many, including ar trageurs who now hold 15% the stock, back the hostile b "I'd vote for Wells in a minut says William C. Field of Bosto based Pioneering Manageme Corp., whose company ow around 1.6 million shares of Fi Interstate. Warren E. Buffe who holds stakes in Wells a First Bank System, also stan behind the Wells bid.

First Bank Chief Financial Offic Richard A. Zona is trying to chang such voters' minds, arguing that Well projections are overly optimistic and h bank's deal is better. He says Fir Bank can quickly generate $500 millio in savings, chiefly by combining bac office operations, and Wells would ha to cut 93% of First Interstate's staff save what it is promising. He says Fir Bank won't be upping its bid. "Wh should we when we have the best off on the table?" he asks.

Critics say Hazen should have b higher the second time around, takin the chance to throw a knockout pun that First Bank could never rival. B supporters applaud him for not overbi ding. Many believe he has left himse room to up the offer if he chooses. Tha a position any gambler would envy.

By Nanette Byrnes in Los Angel with Sam Zuckerman in San Francis

ON PAPER, NO CONTEST

Current offers for First Interstate Bank, and estimated 1997 returns to shareholders

	WELLS FARGO	FIRST BANK SYSTEM
PER-SHARE VALUE*	$137.50	$135.85
TOTAL VALUE*	$10.4 billion	$10.3 billion
COST SAVINGS	$800 million	$500 million
SHAREHOLDER RETURN	26%	18%

*Based on acquirers' stock prices Nov. 14

DATA: COMPANY REPORTS

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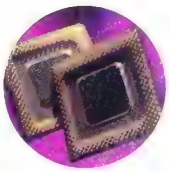
IBM Solution #28176-T  **a.k.a. "Dual-Processing"**

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PRESSURE: *Sweeney (in hat) with union execs and Boeing workers*

LABOR

NOW DEPARTING FOR CHINA: BOEING JOBS

A union protest points up the growing cost of competing abroad

After months of skirmishes over everything from human rights to arms control, U.S. relations with China are beginning to thaw. If the International Association of Machinists (IAM) has its way, though, the warming may be little more than a false spring.

The union, which began a strike against aircraft giant Boeing Co. last month, has been prodding the Clinton Administration to initiate a harsh trade action against China. The charge: that the Chinese government demands technology and production transfers from Boeing and other companies as the price of market entry.

THREATS. An interagency task force in Washington has been examining the issue since October. If the Administration decides not to pursue the idea, the union is threatening to file its own trade case with the U.S. Trade Representative under Section 301 of U.S. trade law. If it does so, the White House could wind up in the diplomatic hot seat anyway. "These filings can never be easily dismissed," says Joseph A. Massey, a former assistant U.S. trade representative who teaches at Dartmouth College.

The union's broader agenda is to call attention to the extensive movement abroad of U.S. jobs and technology. U.S. employers have been shifting production overseas for years, often to take advantage of cheap labor rates for low-skilled work. But lately, developing countries have demanded the export of high-skilled jobs as well.

The result is that even the best American jobs may be in jeopardy. As a leading U.S. exporter, Boeing is a prime example of the trend, since most of its 32,000 IAM members are skilled workers earning $40,000 a year or more. In exchange for access to the booming Chinese market, the Seattle-based company recently agreed to build half of the fus lage for its new generation of 737 jets a military plant in Xian, China. In t process, the IAM says, it will give t Chinese access to the company's aircra design and shift skilled production jo there. "They're squeezing every ounce productivity out of the workers and th throwing them on the street," charg John J. Sweeney, the AFL-CIO's new pre ident, who on Nov. 12 walked the Boei line with other union execs.

"THAT'S CRAZY." Boeing officials say t swaps are necessary to compete wi Airbus Industrie, the European aircra consortium. The two are fierce riva On Nov. 14, Boeing beat Airbus a won a contract to build 77 planes f Singapore Airlines. But union offici say Boeing's technology exports on set up increased competition for U. workers. "Now there is Boeing in Chi and Boeing here," AFL-CIO Secretar Treasurer Richard L. Trumka told stri ers at the Nov. 12 rally. "What we ha is one hand of Boeing competing wi the other hand, and that's crazy."

Other companies already are unhapp about China's mercantilist tactic Chrysler Corp. recently killed a plan make minivans in China because the go ernment demanded too much technolog And on Nov. 8, the U.S. Chamber Commerce demanded that China curt its anticompetitive behavior before i allowed to join the World Trade Orga zation. Still, the technology transfers co tinue. AT&T, for one, has agreed to set a mini-Bell Laboratories in China as pa of a deal to sell phones there.

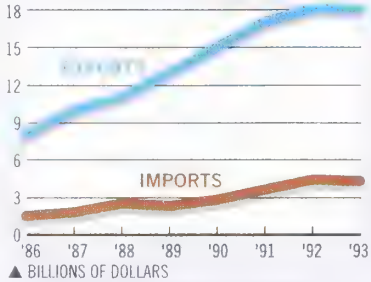
In recent years, the U.S. has be much more willing than other industria ized countries to shift technology abroa Since 1986, foreign sales of industri patents, licenses, and designs have soar from $8 billion to $18 billion, after a justing for inflation (chart). U.S. pu chases of foreign technology total only billion, up from $1.5 billion in 1986. contrast, Japan, France, Germany, a Britain all import as much technolo as they export. "Boeing is just an e treme case of the technology transfe that the U.S. has been doing for a lo time," says Greg Mastel, a trade expe at the Economic Strategy Institute.

Clinton came to office plugging t idea of a high-skills, globally competiti economy. Now he may have to deci how much of a diplomatic flap his ca paign promises are worth.

By Aaron Bernstein in New Yor with bureau reports

TECHNOLOGY FOR SALE

U.S. sales and purchases of patents, licenses, and designs related to industrial R&D, in 1987 dollars



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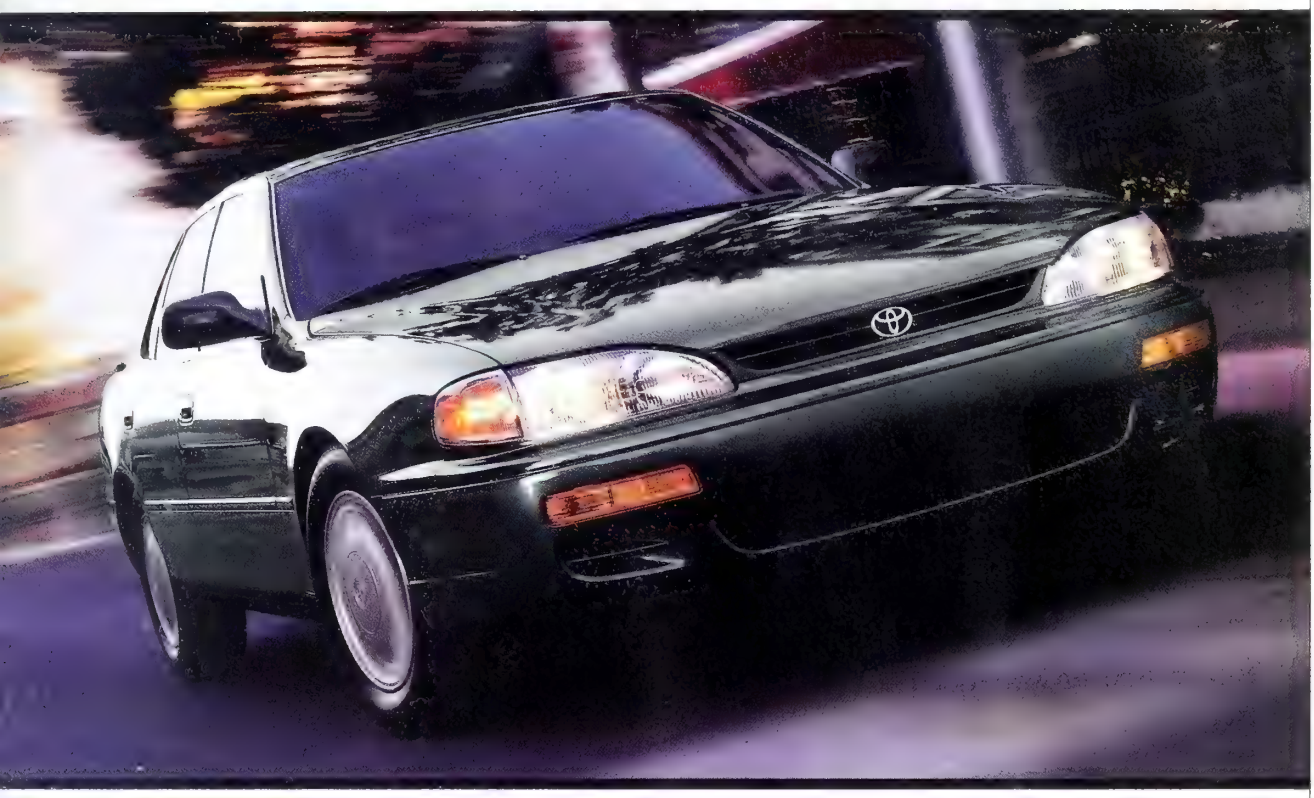

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STRATEGIES

FOR A PINK SLIP, PRESS 2

AT&T asks 77,800 workers to take a buyout or risk the ax

Thousands of AT&T managers have a tough decision to make this holiday season. Should they take a buyout the company offered on Nov. 15 to 77,800 of them, which expires Dec. 29? Or should they wait and hope they'll survive layoffs that the company is expected to announce by mid-January?

AT&T's 302,000 employees have all known that their jobs might be on the line since Chairman Robert E. Allen announced on Sept. 20 that by 1997 the company will split into three parts—telecommunications equipment, communications services, and computers. And it's not as though employees haven't gone through this before. In the past 11 years, AT&T has shed 125,800 workers.

This time, though, AT&T needs to move quickly. If Congress sticks to its timetable and passes a bill deregulating the phone industry by Christmas, AT&T's $49 billion communications-services business will find itself in a far more competitive industry very quickly. The seven Baby Bells are all gearing up to offer long-distance service as soon as they are allowed to, while AT&T wants to duke it out in local calling. AT&T's $20 billion equipment business has already lost key contracts this year and is well behind its competitors in the international market.

Employees might find some solace in the knowledge that AT&T could end up adding as many jobs as it drops as it enters new businesses. New markets have kept the communications-services business from coming anywhere near its February, 1994 pledge to cut its staff by 15,000 over two years. According to Harold W. Burlingame, AT&T's senior vice-president for human resources, AT&T may hire as many as 20,000 people this year: "We will downsize and grow at the same time, as we address new markets and new opportunities."

> DISCONNECT
> As it enters new businesses, AT&T could end up adding as many jobs as it drops. But layoffs are virtually certain

BAH, HUMBUG. Still, layoffs are a virtual certainty. The current buyout offer is less generous than one AT&T made in 1989, and only 10% of the 120,000 eligible managers took that one. "I think the company is telling the truth when they say they have no clue as to what the take rate will be," says analyst Richard C. Toole of Merrill Lynch & Co. That will change soon. Burlingame says AT&T expects to know by late December how many layoffs will be necessary. Some managers will get post-breakup assignments by mid-January and "unassigned managers will be asked to leave involuntarily." That's a cheery holiday message.

By Catherine Arnst in New York

CRISIS MANAGEMENT

THE LATEST SHELL SHOCK

Its behavior in Nigeria has it scrambling to avoid a boycott

This is one year executives at Royal Dutch/Shell Group would like to forget. In April, the $140 billion oil giant announced a major management shakeup after earnings from its two largest divisions slipped badly. In June, activists forced Shell to back down on plans to dump its defunct Brent Spar drilling rig at sea. Now, the company is in the line of fire again, this time from activists who want Shell to get out of Nigeria following the Nov. 10 execution of nine dissidents after what neutral observers called a sham trial.

At Shell's London headquarters, unnerved officials are working furiously to keep the latest crisis from spinning out of control. Nigeria accounts for 14% of Shell's crude-oil production and some $130 million in operating earnings. In major capitals around the world, Shell officials are using all of their back-channel contacts to dissuade ministers from organizing a trade embargo or oil boycott. So far, most countries appear to be taking less punitive measures, such as recalling ambassadors or canceling weapons sales or aid. Shell also has met with stock analysts, assuring them that the Nigerian operation's future is secure. So far, so good: Shell Transport & Trading PLC shares closed 3% higher, at $12, on Nov. 15 in London.

But legions of human-rights activists, environmentalists, and consumer groups are meeting in Europe and the U.S. to discuss what actions they can take to press Shell to exit Nigeria. "There is a bigger coalition forming around boycotting Shell than I have ever seen around any other issue," says Greenpeace International spokesman Stephen M. Kretzmann.

The Brent Spar case showed that Shell has an Achilles' heel: If consumer boycotts of retail outlets spread, profits are hurt and the company finds it hard to resist pressure. Moreover, Shell is finding it difficult to claim the moral high ground in Nigeria. The company admits to causing some environmental damage and it concedes that oil money rarely makes it back to needy communities.

HAMBURG PROTEST: *Critics say Shell said too little, too late*

WEAK VOICE. In the current crisis, while Shell sought clemency for the now-executed dissidents, it did so at the last minute and only by sending one letter from Chairman Cornelius A. J. Herkströter. Says a spokesman: "Shell is a private company. It hasn't been elected by anyone. By what authority would we interfere in the government of Nigeria?"

For now, Shell argues that its departure would harm the 4,800 Nigerians it employs and weaken an already depressed economy. But it remains to be seen if millions of customers will let Shell turn away from Nigeria's political and economic problems.

By Heidi Dawley and Paula Dwyer in London

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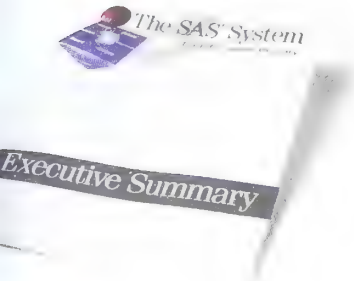

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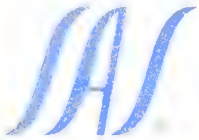

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ITED BY THANE PETERSON

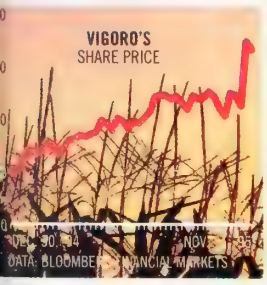
OKING UP APPLE

IE GOOD NEWS FOR APPLE mputer. First, market tchers ranked Apple as nation's top seller of per-ıal computers in the third ırter, with more than 13% the market. Then, at the nt Comdex geekfest in s Vegas on Nov. 13, the werPC consortium of IBM, pie, and Motorola unveiled cifications for a new breed computer that can run just one operating sys-n, but on Apple's Mac OS, r's OS/2, and Microsoft's . Consortium members dged to bring out sys-ns based on the new stan-rd by late 1996. And IBM ted it may adopt the Mac erating system as its best hope of combating Microsoft's Windows 95. "Windows dominates the consumer market," says IBM PowerPC Chief Anthony E. Santelli. "So why fight for Apple's 10% of the pie when we can work together to go after the other 90%?"

CLOSING BELL

FERTILE SOIL

ant more green in your port-lio? Try fertilizer: It worked r Sam Zell, as evidenced by IC Global's Nov. 13 deal to ıy rival Vigoro Corp. for $1.2 llion in stock. A decade go, Zell bankrolled Vigoro ith a $51 million loan, re-aid in 1991. He sold part of s stake for $64 million two ears ago and stands to ake $238 million on his re-aining shares. Some ana-sts think IMC is overpaying, ut NatWest Securities' David elson figures that as ferti-zer demand soars, IMC will et a boost from Vigoro.



BANKER IN SEARCH OF A BANK?

SPURNED BANKAMERICA Chief Financial Officer Lewis Coleman is probably headed for a CEO-ship somewhere, following his resignation from the bank on Nov. 14. In August, BofA's board passed over Coleman and tapped David Coulter, vice-chairman for international and wholesale banking, as its chief executive. He will take over on Jan. 1 when Richard Rosenberg is scheduled to retire. One headhunter calls Coleman "one of the hottest properties in financial services" and says he is likely to end up running his own bank before too long.

WHY UNITED NIXED USAIR

UNITED AIRLINES CHAIRMAN Gerald Greenwald just could not bring himself to pursue USAir. After six weeks of analyzing a bid for his rival and of consulting with United's unions, he walked into a Nov. 13 board meeting and recommended against making an offer. The board didn't even hold a vote. The sticking point: Buying financially troubled USAir would have delayed United's return to an investment-grade credit rating, which it lost last year after undergoing a $5 billion employee buyout. But that doesn't mean United is finished with USAir. Greenwald still wants to beef up UAL's East Coast routes and may bid for part of USAir, United sources say.

HEADLINER: L.D. DESIMONE

HIGH-TECH TAPE UNRAVELS AT 3M

3M has always loved businesses like making reflective tape for road signs—high-margin, with few rivals and long life cycles. But when 3M steered its capital into high-tech tape, it went from road signs to roadkill.

On Nov. 14, 3M Chairman L. D. DeSimone announced that 3M would close its video- and audiotape units and spin off the remaining imaging and data-storage units. The decision comes after 3M poured $2 billion into the businesses from 1992 to 1994. In the end, it found itself unable to overcome the problem of historically meager returns. Says DeSimone: "We didn't match the kinds of results that sustain 3M."

3M struggled in magnetic media—floppy disks, videocassettes, and audiotape—for years, slugging it out with the likes of Sony, TDK, and Eastman Kodak. But excess capacity and an inability to produce a distinctive product left the company open to price competition. And last year, material prices for tape skyrocketed. With new rivals in Korea and China, DeSimone figured it was time to take an easier road.

By Kevin Kelly

NO FOOLHARDY CAPITALIST

ACCORDING TO WIRE SERVICE reports, the personal financial disclosure form of Republican Presidential candidate Steve Forbes, filed with the Federal Election Commission recently, shows he's a cautious investor. Among the *Forbes* publisher's 45 stock holdings, worth less than $2 million in total: Teléfonos de México, Federal Home Loan Mortgage, Citicorp, Merck, and UAL. Other holdings include real estate—rental property and his New Jersey farm—plus a stake in the family business, valued at "more than $1 million." The rules don't require him to be more specific.

THIS SOFTWARE POST MAY BE HARD-GOING

ILENE LANG, 52, IS THE woman on the spot at Digital Equipment. On Nov. 13, after two years at Lotus Development, the software industry vet was named vice-president of DEC's fledgling connectivity software business—the only female vice-president reporting directly to Digital CEO Robert Palmer. She's charged with plucking the software from Digital's various business units and trying to sell the programs in a stand-alone business—a tough task, given DEC's entrenched self-image as a hardware company.

ET CETERA . . .

- Monsanto pockets $580 million from selling a plastics business to Germany's Bayer.
- German chemical giant Hoechst announces huge new investments in China.
- New rides, lower prices, more visitors: EuroDisney finally turns a profit.
- The FDIC is cutting premiums to insure deposits, saving banks $1 billion.

EDITED BY OWEN ULLMANN

JAPAN: WHY CLINTON'S TRADE WARRIORS ARE MAKING NICE

Last summer, hard-line U.S. attempts to pry open Japan's auto market nearly catapulted the two countries into a bruising trade war. But when Vice-President Al Gore begins a visit to Japan on Nov. 19, he'll be under strict orders from President Clinton, trapped in Washington by the budget impasse, to make nice. Gore will touch briefly on economic issues by urging Prime Minister Tomiichi Murayama to follow through on current trade pacts from autos to glass. Then the talk will turn to security. The highlight: an informal agreement to keep at least 47,000 U.S. troops in Japan.

Wait a minute. This sounds like George Bush, who always put security ahead of economics in dealing with Japan. Lured by the growing power of Asian markets and comforted by the collapse of the Soviet empire, Clinton had vowed to shift the focus to the trade chasm dividing the two economic powers. But now he's transforming himself from trade warrior to cautious diplomat.

POLITICAL RISKS. Why the abrupt change? Although Clinton's high-profile attempts to open Japan to American goods have played well with the U.S. public last summer, the White House now believes keeping the spotlight on trade poses downside risks—turmoil in the financial markets and a breach in U.S.-Japan relations.

U.S. Trade Representative Mickey Kantor had been slammed for squandering so much political capital on a weak auto pact last summer, so the Administration is wary about again raising expectations. The White House worries that a trade war during the 1996 campaign could be messy. And while Republican hopeful Patrick J. Buchanan may score political points by stirring up economic nationalism, the likely nominee, Senate Majority Leader Bob Dole of Kansas, is a longtime free-trader in no position to knock Clinton.

So the President has decided to declare victory. Kantor & Co. point to an 80% rise in exports to Japan during Clinton's term. The White House's new mantra: Let's make sure Tokyo hon the agreements they have already made. "No one can say h President hasn't achieved success," boasts a top aide.

The Clintonites also recognize that the two powers h mutual interests in preserving economic harmony. The Presid lowered his rhetoric after trade war threats sent the yen su ing, undermining Japan's already fragile banking system. Tra sury officials, fearing Japan would dump its huge holding o U.S. government securities, have since worked wi Japan to boost the dollar.

JAPANESE PROTEST: *A time to mend fences*

The two countries also have strong strateg bonds. Even in the post-cold war era, they agr that U.S. troops are needed in Japan as a bul wark against North Korea's nuclear buildup, Chi na's growing military muscle, and regional threa that could restrict sea lanes. The ties seemed to fray as the Japanese expressed outrage over he tough U.S. trade line and American spying ar their auto negotiators. And when three U.S. se vicemen confessed in the abduction and rape of a 12-year-old Okinawan girl in September, deep re sentments bubbled to the surface.

But just weeks after U.S. diplomats feared the Japanese might balk at even the innocuous tro deal, things seem to be back on track. The two n perpowers will set up a committee to review the future of U.S. military base leases in Okinawa. The U.S. will support Japan's claim to a seat in the U.N. Security Council. And Clinton's emissaries will prai Murayama for deploying peacekeepers around the world.

Can the President get away with his new all-is-well Japa strategy? The trade deficit remains high, and new disputes may erupt. A 1991 deal increasing U.S. semiconductor chip sales in Japan expires in July, and tempers could flare ov extending it. But for now, Clinton believes he's better off pr claiming he's won the trade war—and changing the subject.

By Susan B. Garland, with Brian Bremner in Toky

CAPITAL WRAPUP

GUESSING GAMES AT THE FED

▶ Administration officials say Federal Reserve Vice-Chairman Alan S. Blinder is hinting that he might like to be reappointed after all when his term expires in January. Clintonites had assumed Blinder would return to Princeton University if passed over for Fed chairman. But with Alan Greenspan a favorite for reappointment as Fed chief, Blinder's associates say he may settle for another term as No. 2. Although a Democrat, incumbent Blinder would have less trouble passing muster with the GOP Senate than a new Clinton nominee. Meanwhile, the Administration is still struggling to fill another Fed seat vacant since April. Of several prominent bankers who have been approached, all are cool to the prospect of divesting their bank stock to join the Fed board.

WAXMAN'S REVENGE?

▶ The retirement of liberal Representative Cardiss Collins (D-Ill.) has left corporate lobbyists grief-stricken. Not that the ranking Democrat on the House Government Reform & Oversight Committee is a friend of business. But if Republicans lose control of the House next year—a prospect raised by the Democrat's stronger-than-expected showing in state races on Nov. 7—business' worst fears could come true. Its dreaded foe, Representative Henry A. Waxman (D-Calif.), would chair the committee, which has broad powers to investigate abuses by government contractors. "We're all horrified," shudders one lobbyist, who says it's sure to spur the denizens of Gucci Gulch to pull out their checkbooks anew for Hill Republicans.

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It's the world's fourth largest nation, but in many boardrooms across the US and Europe it's still not being talked about. With a population of nearly 200 million, it's a market equal in size to that of Germany, the UK and France combined. It has a strong pro-business government and culture, with a fast-growing middle class. The World Bank states that its economy could be the world's 6th largest by the year 2010. If your business needs to learn more about Indonesia, call 1-800-646-7382 (Dept. B21) for a free brochure or contact http://www.indonesiatoday.com

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THE GULF

A DANGEROUS SPARK IN THE OIL FIELDS

Terrorism in Riyadh ratchets up tension as the desert sheikdoms trim largesse

Just four years ago, the U.S. quickly moved to protect the richest oil fields in the world when it led a 39-nation force to oust Saddam Hussein from Kuwait. But the car bomb that struck a Saudi National Guard installation in Riyadh on Nov. 13 suggests once again that internal enemies, not external ones, may now be the biggest threats to the desert sheikdoms. Five Americans and two others were killed in the blasted building, where hundreds of U.S. defense personnel worked.

While it is not yet clear who was responsible, the bombing is certain to contribute to the sense of unease that was already spreading through the pro-Western Arab states of the Persian Gulf. As oil revenues decline, there is growing discontent with the existing political and economic systems. Experts are calling it the Gulf Disease. The symptoms vary from sheikdom to sheikdom, but most of the six members of the pro-Western Gulf Cooperation Council (GCC) seem to have some of them.

Saudi Arabia, the linchpin of the region's pax Americana, has been troubled by antigovernment religious dissent. In the offshore banking center of Bahrain, which hosts the U.S. Navy's gulf fleet, Shiite dissidents demanding jobs and a greater stake in the political system have been rioting. In Qatar the current ruler, Hamad bin Khalifa Al-Thani, overthrew his father last June.

The mood is downbeat even in Kuwait. The economy has failed to regain its prewar vibrancy, and many influential Kuwaitis are worried about their emirate's lack of direction.

PIPELINE PINCH The ruling families no longer have unlimited petrodollars to buy the loyalty and silence of their people

The roots of the problem are the same across the gulf. The era in which ruling families could use seemingly limitless oil revenues to buy the loyalty and silence of the population is coming to an end. Cash-strapped governments are cutting back social services, while the stream of rich contracts that helped oil the economy has dwindled to almost nothing. "Our ability to sustain major projects and welfare is being reduced," says Ali A. Rashaid Al-Bader, managing director of the Kuwait Investment Authority, which is in charge of the oil-rich emirate's shrunken savings. "We have to spend within our means."

But this adjustment is breeding resentment. Belt-tightening has led to increased questioning of the rulers' legitimacy and their management of the national wealth. "When you are being paid lavishly, you don't look closely at the faults of your benefactor," says a Riyadh-based economist. "But when you are struggling to

VIOLENT CYCLE?

Riyadh's trump cards include an efficient security service. But a rights activist notes that once terrorism starts, "it's difficult to stop"

FAHD AND THE AFTERMATH: HUNDREDS OF AMERICANS WORKED IN THE BOMBED BUILDING—AND FIVE WERE KILLED

ive and the royal family lives high, fuels resentment."

audi Arabia sits on top 25% of the ld's oil reserves, but that hasn't kept om feeling the same economic pres- s as its neighbors (charts). Declining prices and the $55 billion Riyadh nt to support Operation Desert rm have left the country with a ving public debt. A population explo- has also helped sharply erode per ta gross domestic product from e than $12,000 in 1982 to little more n $7,000 today. Some 3 million Sau- –44% of the labor e—work in the lic sector, where ries have been fro- for almost a ade. This year, in ge departure from litional largesse, g Fahd is more n doubling the fees rged residents for tricity, water, and er services.

TAPES. Such ero- of the desert wel- state sorely ins the paternalis- social contract between the ruling Saud clan and the population. Since political activities are banned, dis- tent in Saudi Arabia is often ex- ssed through Islamic channels, as it lsewhere in the Mideast. Shadowy ups with an apparent Islamic agenda e threatened Western embassies and panies in Saudi Arabia, and some med responsibility for the blast.

Renegade preachers regularly attack the Saudi royal family for supposed corruption, loose living, and their ties to the U.S. Last November, following antigovernment disturbances near Riyadh, the authorities jailed hundreds of Islamic agitators. Among those arrested was the well-known preacher Salman Al-Awdah, whose incendiary cassettes, secretly distributed through the kingdom, have made him a rebel hero.

A London-based opposition group, the Committee for the Defense of Legitimate Rights (CDLR), now regularly exposes corruption and human-rights violations in Saudi Arabia in its weekly broadside, *Al-Huquq*, that is faxed into Saudi Arabia and widely photocopied. CDLR spokesman Muhammad Massari predicts that the bomb attack could signal a sharp uptick in political violence. "When things like this start, it's difficult to stop," he says. Massari, who spent six months in Saudi jails in 1993—without charges—says that a Saudi government crackdown on Islamic radicals following the car bombing could further widen the gulf between the House of Saud and the populace.

Saudi Arabia could soon face another highly delicate and potentially explosive problem: the succession to ailing 74-year-old King Fahd. Since 1953, the throne has been occupied only by sons of Ibn Saud, the founder of modern Saudi Arabia. The lack of rules about how power could pass to the 500 to 600 senior third-generation princes suggests that Saudi Arabia's huge ruling family could soon be riven by the kinds of bitter rivalries that in the past have split Kuwait's ruling Al-Sabahs.

Of course, none of this is to say that civil strife is around the corner. The Al-Saud and other royal families still hold many trump cards, including ruthless, efficient security services. But that said, all of the monarchies of the GCC face a tough predicament. Governments are going to have to curb expenditures and rely more on the private sector to create jobs. But to chop services and public-sector payrolls will require bringing the people more and more into the decision-making process. "To restructure economically, you need a new political arrangement," says Fareed Mohamedi, global oil-markets analyst at Petroleum Finance Co., a Washington consulting firm. He envisages the ruling families sharing more power in return for their constituents' accepting spending cuts.

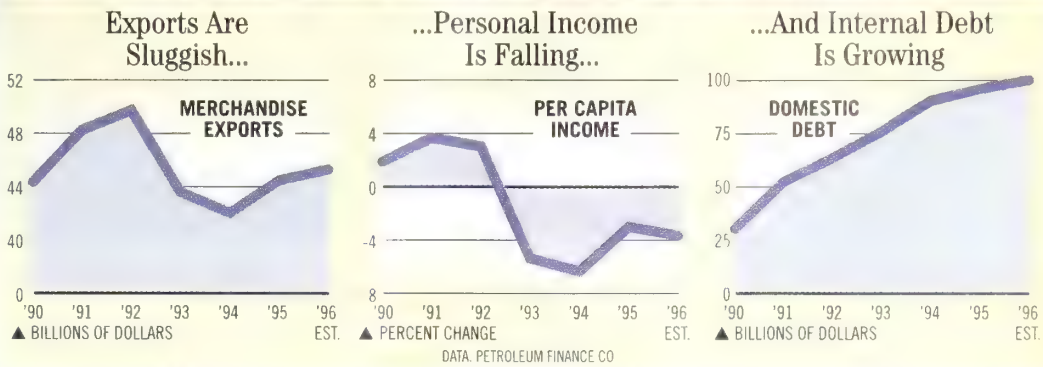
RUBBER STAMP. Tentative steps are already being taken in that direction in some of the gulf countries. After years of stalling, King Fahd finally appointed a Consultative Council, or Majlis Al-Shura, to give voice to nonroyals. But the group serves more as a rubber stamp for government policies than a forum for real debate. And one still hears plenty of grumbling from the business community about princes muscling into what had been the merchants' turf.

In Kuwait, by far the most open of the gulf countries, the Al-Sabahs have ceded considerable power to an elected national assembly. While this body has been an invaluable safety valve for dissent, it is far from a panacea. Parliamentary deputies who have been playing to the voters have made it difficult for the government to trim services and implement serious privatization.

So the next few years promise to be critical in the gulf. The period of adjustment is only beginning, and so are the strains. And the U.S., which is vigilantly watching Iraq and Iran, would be well-advised to devote more attention to the inner workings of its gulf allies.

By Stanley Reed in Kuwait City and John Rossant in Rome, with bureau reports

The Harsh Numbers Facing Saudi Arabia



ASIA

THE BATTLE OF THE PACIFIC

U.S. carriers face rising competition from Asian rivals

When Andersen Consulting's Jay Rein travels to Asia from Dallas, he could easily hop a United Airlines Inc. flight for the 15-hour trip to Tokyo. Instead, he flies to Atlanta to pick up a nonstop Japan Air Lines flight, where Asian flight attendants pamper him and he sups on sushi and noodles. "When I'm going to immerse myself in a foreign culture, I like to do that from the start of the trip," says Rein, who travels to Asia once every three months.

He may soon have a lot more choices. A flock of fast-growing Asian airlines is looking to the lucrative transpacific market for their next wave of expansion. That may be good news for business travelers, but it's bad for United and Northwest Airlines Inc. The two U.S. carriers have long dominated the transpacific travel market. The threat from Asian carriers is coming just as the Japanese government wants to limit the lucrative rights of United and Northwest to pick up passengers in Japan for connecting flights into Asia.

ON THE LINE. The competition across the Pacific will only get tougher. For decades, most U.S. travelers to Asia have had to switch planes at Tokyo's Narita Airport, where Northwest, United, and Japan Air Lines hog the terminals. But now, new, longer-range aircraft such as the Boeing 747-400 are allowing Asian carriers to bypass Narita and either fly directly to the U.S. or stop over at less crowded airports. As the first step in its U.S. expansion, Hong Kong-based Cathay Pacific Airways Ltd. will begin flying daily to New York via Vancouver by next Sept. 1. Also on its agenda: United's home base of Chicago and Northwest's busy hub in Detroit

Singapore Airlines in July added three new weekly flights to San Francisco via Seoul. That gives it 10 flights a week into San Francisco, United's major jumping-off point for Pacific flights. Singapore just ordered 77 of Boeing's long-haul 777 model worth $12.7 billion. That's the largest single order in Boeing's history.

United and Northwest have a lot on the line. "The Pacific is carrying United," says Jon Ash, managing director of Global Aviation Associates in Washington. Last year, the carrier racked up a $344 million operating profit there, two-thirds of its total in 1994. At Northwest, the Pacific division was the airline's cash cow until the U.S. and Japanese recessions slashed passenger traffic in 1990. Northwest, which carries fewer first-class travelers than United, suffered losses in the Pacific for the next 2½ years. But Northwest posted an $103 million operating profit in the region for 1994, according to Michael E. Levine, Northwest's executive vice-president for marketing.

The big question is whether even this market can draw enough passengers to fill all these new aircraft. "There's a risk that somewhere down the line, the new capacity will exceed demand," says David Treitel, president at airline consultants Simat Helliesen & Eichner Inc. in New York.

But United and Northwest have more than deep-pocketed competitio to worry about. As part of negotiatio to allow other U.S. carriers an i creased presence at Japan's airport the Japanese government wants to lir it the so-called fifth freedom rights United and Northwest. Spelled out the 1952 bilateral air agreement b tween the U.S. and Japan, these righ allow only two U.S. carriers to pick u passengers in Japan and transport the to other spots in Asia. American Ai lines Inc. Chairman Robert L. Crand has called on the U.S. government renegotiate the bilaterals because the unfairly protect United and Northwe at the expense of wannabe Asian pla ers such as American, Delta Air Line and Continental Airlines.

Although Washington doesn't appe inclined to Crandall's view, the Jap nese will keep pressing their claim And the Asian carriers will keep e panding, even though United ar Northwest say they aren't terribly wo ried right now about these new con petitive threats.

But maybe they should be. Mar Miller, a Washington restaurateur an frequent flier to Asia, can't say enoug good things about the service he re ceives on Singapore Air: "The efficienc and attention to detail are unmatched. With such rave reviews for their con petitors, United and Northwest coul be heading for big-time turbulence ove the Pacific.

By Susan Chandler in Chicago, wi Mark L. Clifford in Hong Kong, Laxm Nakarmi in Seoul, and Brian Bremne in Tokyo

SKY-HIGH STAKES: *The Pacific is by far United's most profitable region*

There are a lot of reasons for impotence.

Diabetes.

Heart disease.

Hypertension.

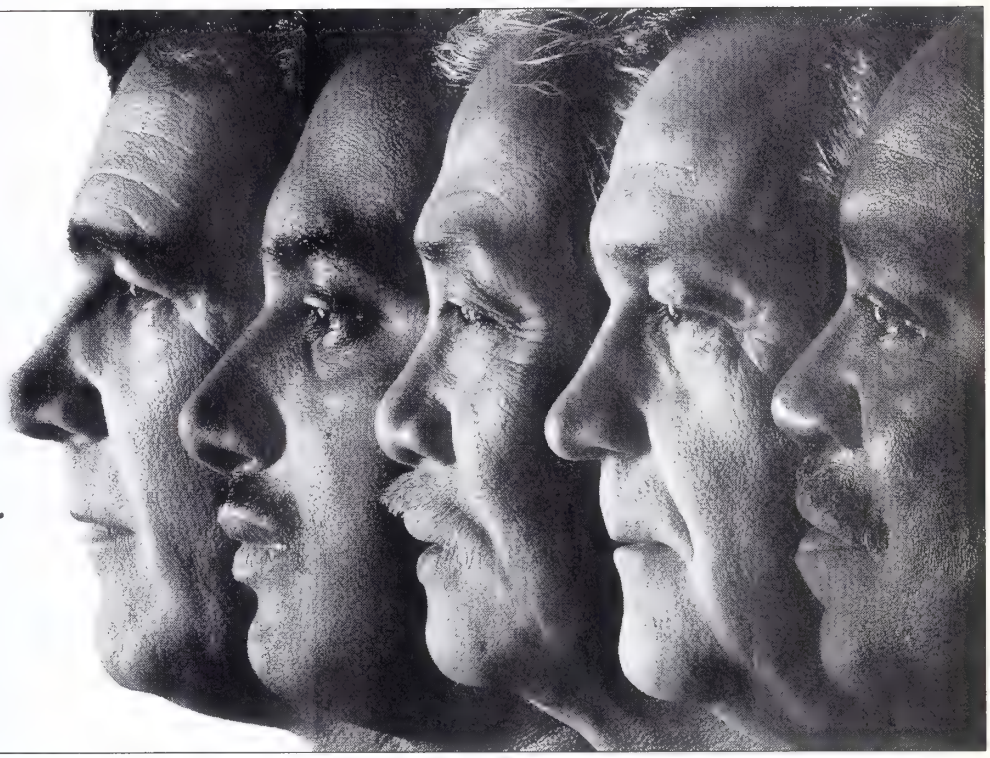
High blood pressure.

Side effects of medication.

Neurological disease.

High cholesterol.

Stress and anxiety.



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SOUTH KOREA

RUNNING SCARED IN SEOUL

The scandal may signal the end of the corrupt old ways

Roh Tae Woo's son and younger brother spoke softly and bowed to South Korea's former President as he ducked into his waiting limousine outside his house. Dozens of camera cars trailed the motorcade on Nov. 15 for the 17-minute ride to the public prosecutor's office across town. For Roh, who confessed three weeks ago to amassing a $650 million slush fund, the trip seemed likely to be one of his last as a free man.

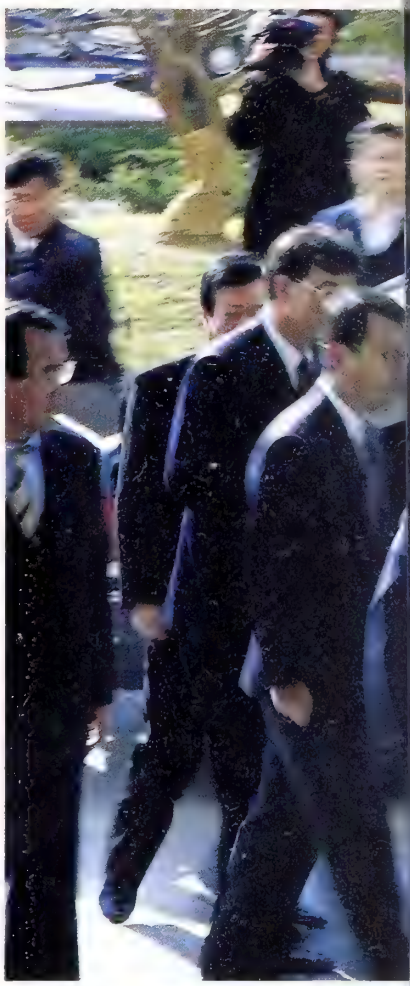
As evidence piles up in a spectacular probe of payments by businessmen to politicians, Roh's arrest has appeared increasingly likely, making him the first former President of South Korea to face criminal charges. His prospective immediate home: the Seoul Detention House on the city's outskirts, where guards were preparing an isolated cell little bigger than a single bed. Roh's arrest would also be the climax to a high-profile investigation that featured the questioning of 36 leaders of the nation's giant *chaebol*, or conglomerates, for suspected bribery. The business deals involved range from supplying naval craft to construction of power plants and satellite cities.

While Koreans remain transfixed by the unfolding drama, the scandal is sending a signal that the corrupt old ways of doing business in Korea are under assault. The full impact of the crisis on Korea's political and corporate worlds remains hard to predict. But at a minimum, the investigation by senior prosecutor Ahn Kang-Min is putting a damper on bribery at the highest levels.

ASHAMED. The *chaebol* chiefs summoned to testify include Hyundai's Chung Ju-Yung, Samsung's Lee Kun-Hee, LG's Koo Cha-Kyung, and Daewoo's Kim Woo-Choong. Most have acknowledged making payments, and according to *Chosun Ilbo*, a leading daily, the top five *chaebol* each shelled out more than $25 million during Roh's five-year term.

The deeply corrupt business-government relationship being disclosed by the scandal has made Koreans ashamed and angry. Even if only Roh and a few *chaebol* leaders go to jail, the dishonor cast on the entire corporate and political Establishment is sending a warning message. The result is likely to be an acceleration of moves towards less corrupt, more open business practices in an economy still so regulated that it makes Japan's look laissez-faire. Korea has already started gradually opening many business sectors to foreign investors, for example, and this week added an additional 48. Fields from investment banking to gas stations will open up between 1996 and 2001. Other liberalization moves have been introduced.

But the high-profile flogging of Korea Inc. alone may not be enough to end the rampant bribery that runs through the economy—especially at lower levels. That will require massive cuts in economic regulations and the bureaucracy that administers them. "Bribery has been used as a lubricant because regulations are so strict as to kill the economy," says Lee Han-Koo, president of the Daewoo Research Institute.



STRANGE DAYS: *Samsung chief Lee Kun-Hee comes in to testify, while riot police subdue an antigovernment protester in Seoul*

How much change the scandal wi trigger depends on how President Kir Young Sam plays it. To satisfy publi outrage, he must respond to rising pres sure to send Roh to jail. Such a punish ment would be a sign of Korea's in creasing democratization, reflecting th growing power of public opinion. There' a danger, though, that the scandal coul spiral out of control. To many, Kim ap

CONTRITE: *Roh Tae Woo may soon be residing in jail*

Foreign execs see benefits from the scandal: It will be riskier for officials to demand bribes, and it will be easier to refuse

ars to be using the crisis to discredit val pols, including opposition leader im Dae-Jung, who confessed to tak- g about $2.5 million from Roh in 1992. m Dae-Jung could retaliate by launch- g street protests demanding that the resident reveal details of his own nds, including campaign money he ay have received from Roh. The result uld be political chaos before next pril's general elections.

However, the government is deter- ined not to let the uproar capsize the onomy, which is expected to continue grow at a fast 7.5% clip next year, af- r this year's 9.1%. The betting is that avoid rocking the economic boat, the overnment will arrest only a few lead- s of the smaller *chaebol*. That's be- use the major conglomerates are so ucial to Korea's growth and interna- onal expansion. The top 30 *chaebol*, ong with the masses of subcontractors ey control, account for more than half the nation's gross domestic product.

No matter what the outcome, though, e scandal shows the progress Korea as made in transforming itself from a overty-stricken military dictatorship. fter the military seized power in a 961 coup, the government wielded total ontrol of the economy, setting industrial policies and picking tycoons like Hyundai's Chung Ju-Yung to carry them out. Favored businessmen had access to scarce credit and protection from competition. The quid pro quo was an obligation to make "political contributions" to the President.

MAKE THE LEAP. Kim Young Sam, who became Korea's first elected civilian President in three decades in 1993, took changing this old order as his mission. He pushed through key reforms such as the law that bans bank accounts held under false names and the requirement that politicians disclose their personal assets. These have enabled prosecutors to pursue Roh.

Kim seems to realize that the old order has hobbled South Korea's attempt to make the leap from Asian Tiger to advanced industrial nation. That yearning is symbolized by Korea's drive to become a full member of the Organization for Economic Cooperation & Development, which Seoul hopes to join next year. But Korea's overregulated domestic market and rules promoting export-led growth still rankle trading partners.

Korea's bid for OECD membership is likely to limit some aspects of the scandal probe. Analysts expect it will deter tough questioning of foreign companies that are the partners of many *chaebol* and may have paid bribes. Still, the scandal has stirred up old suspicions, such as allegations that a unit of Lockheed Martin Corp., formerly part of General Dynamics Corp., greased Roh's palm with a cool $140 million in connection with a 1991 sale of F-16 fighters. The rumors are resurfacing even though the U.S. General Accounting Office cleared General Dynamics of the allegations and a Korean probe begun last year has yet to find evidence of wrongdoing.

Longer term, many foreign companies see benefits flowing from the scandal. It is likely to make bribery in Korea more risky, so it also should make resistance easier. Politicians and bureaucrats will be less likely to demand massive funds, and companies will find it less difficult to say no. U.S. aerospace executives reckon their refusal to play the game has resulted in European companies grabbing more than half of Korea's overseas defense procurement contracts. "Now that these things have been brought out into the open, you have to have optimism that we will have greater transparency," says David Kim, country manager for insurance brokers Johnson & Higgins.

Still unclear, however, is whether turmoil at the top will change the practices further down. For Korean business there remains what Daewoo Research's Lee calls "involuntary pseudo-taxation," much of it in payments to midlevel bureaucrats who wield regulatory powers. The result is that big companies involuntarily shell out 1.2% of their sales, Lee says, while small and medium-sized companies pay 0.8%.

So far, Korea's political leaders haven't seized on the slush fund as a lever to root out this widespread corruption. If they don't, the scandal convulsing Korean politics and business won't be the last.

By Steven Brull and Laxmi Nakarmi in Seoul

WITH A RELIABLE NETWORK, WHA

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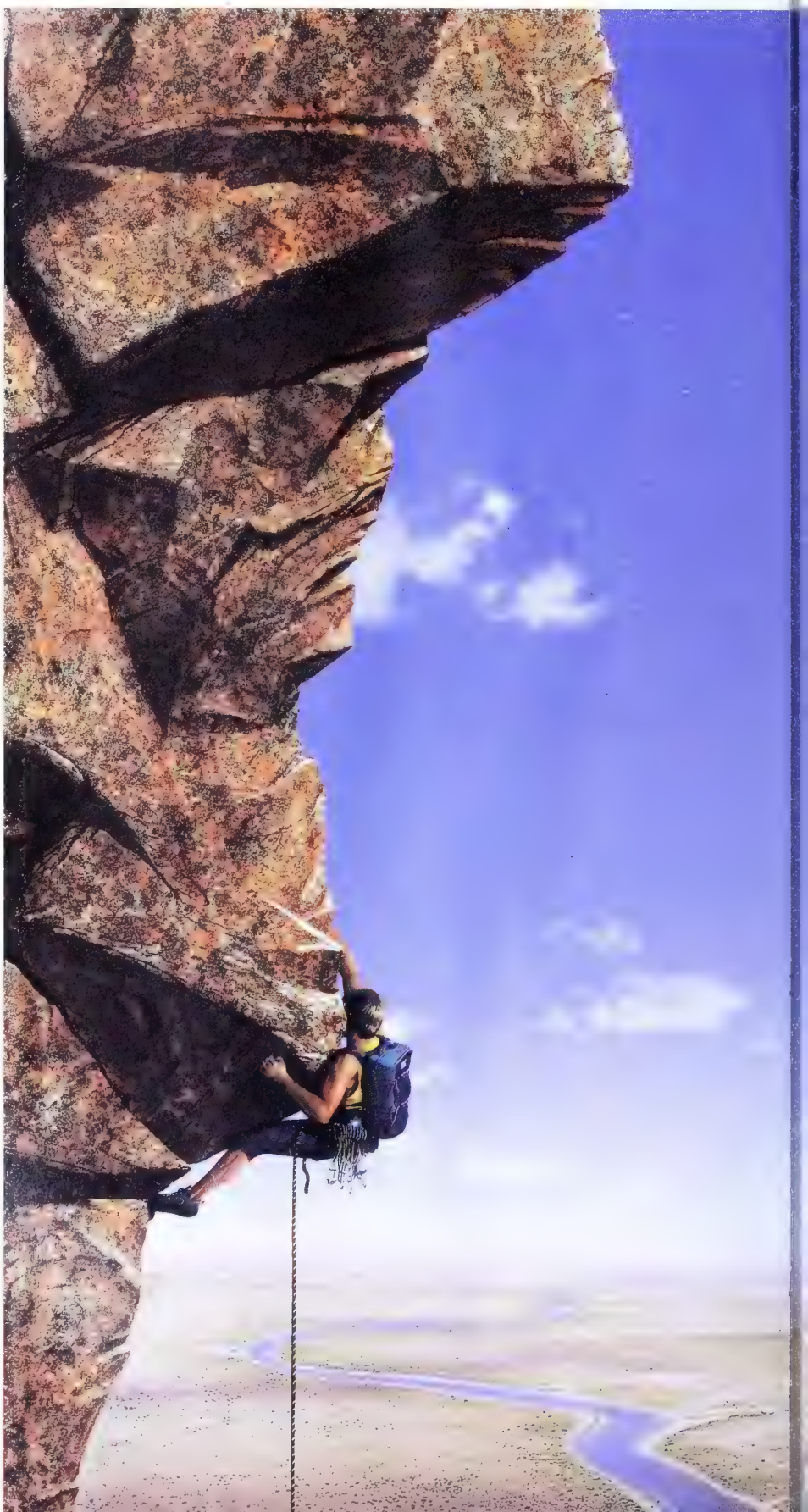

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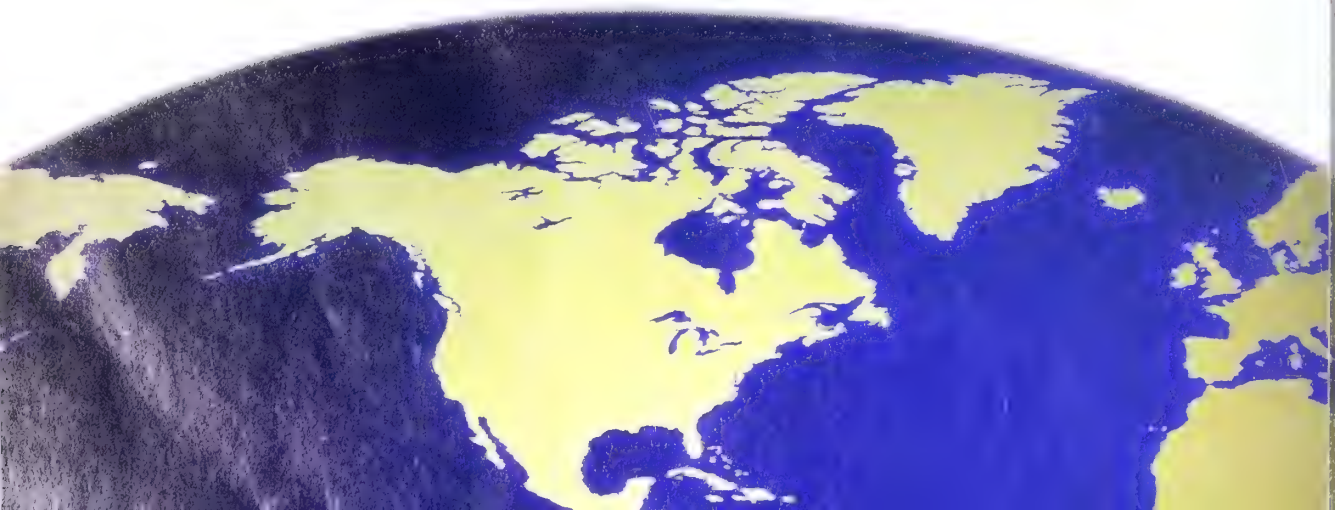

DITED BY STANLEY REED

MEXICO'S BIGGEST STUMBLING BLOCK: A LEADER WHO DOESN'T LEAD

s Mexico headed for another meltdown? Certainly, confidence in President Ernesto Zedillo Ponce de León's economic management is in free fall. The latest blow to presidenl credibility was the 1996 budget, announced on Nov. 13. It sumes a peso averaging 7.7 to the dollar, 20% inflation, and 3% onomic growth. All are now considered unrealistic goals, folwing the peso's recent 15% plunge to nearly 8 to the dollar.

The markets were not impressed. After the announcement, e government intervened to shore up the peso, which is ading for 9.5, Goldman, Sachs & Co. predicts. Because of the ters, the government is forced to pay nearly 60% for 28-day lls—nearly double the rate of six weeks ago. "They overprom- e and then underdeliver," complains itchell E. Sahn, managing partner Latin Tactical Trading Group in ew York.

OW PROFILE. Until recently, Mexins were remarkably patient with e career technocrat who was unexctedly thrust into the presidency afr the assassination of the ruling Initutional Revolutionary Party's first ndidate, Luis Donaldo Colosio. But w, Mexicans are wondering if Zello is ever going to get the hang of s job. That's why the markets gave me credence to rumors of a military coup in early Novemr—even though the Mexican armed forces' tradition of stayg out of politics makes such an event extremely unlikely.

Zedillo suffers from two basic weaknesses: a woeful inabilto sell his programs and an apparent unwillingness to excise Mexico's strong presidential powers. Since the crisis upted last December, he has largely shut himself in the residential residence. When he meets with delegations of sinesspeople and foreign diplomats at the palace, he prents convincing arguments for his policy decisions. But most exicans don't see that side of him.

RUMORS: *Despite the talk, a coup is unlikely*

Zedillo's advisers argue that he is purposely keeping a low profile as his contribution to a redistribution of political power. But his reticence has cost him credit for real achievements. His administration has met the major requirements of the $50 billion international bailout led by the U. S.—a balanced budget, strict limits on monetary growth, and draconian fiscal constraints. He managed to negotiate a pact with business and labor, agreeing on moderate wage increases and goals for inflation and growth in 1996. And he submitted to Mexico's Congress a proposal for sweeping pension-fund reform that could give a big boost to the nation's savings rate.

None of this has calmed the markets, which "are not being guided by the economic fundamentals but by a lack of leadership and long-term economic strategy," says Denise Dresser, a political scientist at Mexico's Autonomous Technological Institute.

That absence of leadership is feeding the rumor mill. One rumor predicts the appointment of an "economic czar" to boost the government's credibility. Candidates mentioned include former Finance Secretary Pedro Aspe Armella and Jesús Silva Herzog, Mexico's politically savvy ambassador in Washington. A former PRI secretary-general proposed that if the peso hits 10 to the dollar, Zedillo should make way for a "government of national salvation."

But the most likely scenario is that Zedillo will continue to preside over an economic mess. Bad loans are rising, inflation is higher than expected, and the recession is turning out to be far deeper than most economists forecast. The government now admits that with the rise in interest rates, efforts to bail out the banks and consumers will cost $11 billion, or 5.1% of the GDP, much more than originally predicted. Zedillo's performance threatens to drag the whole country down.

By Geri Smith in Mexico City

GLOBAL WRAPUP

EUROCURRENCY DELAYED

▶ It always seemed unrealistic. Now Europe's leaders are beginning to admit the 1999 deadline for monetary union won't be met. The latest hint of delay was a proposal by the European Monetary Institute, the European central bank-in-waiting, for a three-year phase-in period beginning in 1999.

Much of the difficulty is coming from Germany, where Chancellor Helmut Kohl is being harried by the opposition Social Democrats for his supposed willingness to abandon the German mark for a suspect Eurocurrency. That is forcing Kohl's government and the Bundesbank to demand tough terms for monetary union. Bonn has persuaded France and other European countries to agree to aim for budget deficits of just 1% of gross domestic product instead of the 3% originally agreed on for economic union. But with Continental economies slowing, governments realize they're unlikely to meet the goals by 1999. Germany's top economists recently suggested that their country wouldn't even meet the 3% target.

KOOR RAISES MONEY

▶ Shrugging off any jitters from the Nov. 4 assassination of Prime Minister Yitzhak Rabin, Israeli conglomerate Koor Industries Ltd. has raised almost $120 million in a global offering. Smith Barney Inc. led the offering, and Union Bank of Switzerland handled the 40% slice reserved for European investors. The deal is another indication that investors and businesses believe the Middle East peace process will continue to move forward.

ASIA'S NEW GIANTS

Many will be global players—but the challenges are huge

About an hour's drive outside of Hong Kong's posh Central District stands the nondescript headquarters of the colony's largest electronics company, VTech Holdings Ltd. Founded by Chairman and Chief Executive Allan C. Y. Wong, the company occupies three floors—some 130,000 square feet—in the no-frills Tai Ping Industrial Center. It's in this working-class neighborhood, where Wong, a 45-year-old U.S.-trained engineer, and his top four deputies, meet several times a week over dinner to plot strategy for the company's main lines of business: electronic toys, telecom gear, and computers.

The sheer size of the operation is a testimony to VTech's phenomenal success since its humble start in 1976. Back then, Wong rented space in a grimy textile factory building, where he and 40 others did everything from design to sweeping floors. His first invention was Pong Game, a crude interactive ping-pong game played on a TV set. Now, his eye-catching electronic educational toys have names like Talking Whiz Kid Genius and Smart StartSpeller, and they contain everything from keyboards to liquid crystal displays. The company boasts 15,000 employees, 800 of them engineers working in R&D centers from Irvine, Calif., to Dongguan, China. "It's a totally different game than when we were small," says Wong.

Special Report

VTech is one of Asia's emerging giants. Throughout the region, hundreds of companies like it are rapidly gaining in size and stature. Some of them will become household names, as Japan's Sony Corp. and South Korea's Samsung group already have, while others will be content to dominate their niches worldwide. Increasingly, these will be the companies that Americans, Japanese, and Europeans will have to either compete against—or cooperate with.

Not all Asian companies are going to succeed, of course. Increased competition from established multinationals—as well as a trend toward more open markets in Hong Kong, Taiwan, and Southeast Asia—will hurt players that fail to alter their traditional paternalistic management style. For years, Asian companies have succeeded by riding a wave of double-digit economic growth. Overseas Chinese entrepreneurs who dominate the region's economies, for example, hold liquid assets conservatively estimated at $2 trillion. For them, constantly rising land prices, the ability to tap large pools of cheap labor, and an extensive network of personal connections were more important than advanced management methods.

But that era is fast ending. In the next phase, Asian companies will need to apply higher levels of technology, move into more service-sector activities, and establish regional dominance, if not truly global presences. Many face the task of streamlining their operations to become more internationally competitive. And they must achieve all this at a time when the family founders are passing the mantle of leadership over to the next generation.

RELAXED GRIP. Pulling off the transition requires nothing less than a management revolution. So even the most traditional family-run companies are beginning to recognize the need to relax the iron grip of their founders and start recruiting professional managers. "If they can't decentralize real decision-making in their organizations," says S. Gordon Redding, director of the University of Hong Kong Business School, "then they can't be a multinational."

There is surprising diversity in the way companies are responding to this challenge. Many family-run businesses that have evolved over the years into unwieldy conglomerates are wisely starting to focus on their core businesses (tables). Other big Asian businesses are forming strategic alliances with multinationals to gain access to higher levels of expertise and technology. Once-coddled state-run monopolies are listing on stock markets and overhauling their operations.

TRUSTING THE TROOPS The paternalistic, hierarchical style of traditional Chinese companies is giving way

WONG AND HIS MANAGEMENT TEAM AT VTECH

No one expects the new Asian giants to become copies of eir Western competitors. More likely, the successful com- nies will be the ones whose management methods combine ey ingredients from both East and West. They will try to erge traditional Eastern entrepreneurial spunk and rapid ecision-making with Western managerial knowhow in every- ing from finance to high tech. They will become more transparent in their accounting and other business practices to attract outside capital but will avoid legalistic and bureaucratic structures. Another crucial balancing act will involve family control. Whereas Japanese business groups have largely passed into the hands of professional managers, the family-minded Chinese are likely to maintain key roles for sons—and some daughters.

But even if the founding families don't completely withdraw, they acknowledge they will need huge numbers of highly skilled managers and workers who can straddle Asian and Western cultures to pull off the transition to the future. Trouble is, such employees are in extremely short supply. "Finding the right people is always a difficult task," says Edmond Ip, managing director of Singapore-based CDL Hotels International Ltd., which is trying to build a global brand for its web of newly acquired hotels. As a result, business schools are expanding throughout Asia. Not to miss out on the action, Western business consultants and headhunters are flocking to the region to help meet the managerial needs of the emerging giants.

The reason the need is so acute is that many large companies still have organizational structures suited for small, nimble businesses—not conglomerates. The founding patriarch makes all important decisions, and he prefers loyalty over expertise, relatives over professionals. "The Chinese way is to control everything," explains Stan Shih, founder and chairman of computer maker Acer Inc., who by contrast prefers a "flat" U.S. model that

STRATEGY 1: Professionalizing Management

A sampling of the best emerging Asian companies and their management strategies

COMPANY	COUNTRY	STRATEGY	REVENUE
JOHNSON ELECTRIC	HONG KONG	In the business of micromotors, this family company is bringing in outside executives and investing heavily in training.	$250 MILLION ▲ 29%
TAIWAN SEMICONDUCTOR	TAIWAN	This highly successful foundry has an American as president. Under him are a handful of Taiwanese with American MBAs.	$740 MILLION ▲ 57%
ASTRA INTERNATIONAL	INDONESIA	The core business is assembling and distributing autos. It is run by a professional management team that weathered a crisis when the founding Soeryadjaya family sold out in 1993.	$4 BILLION ▲ 51%
SIME DARBY	MALAYSIA	Southeast Asia's biggest conglomerate, with 200 companies and 32,000 employees, is changing its sleepy image by wooing fresh managerial talent.	$3.1 BILLION ▲ 17%
RAJA GARUDA MAS	INDONESIA	This group, which includes pulp and paper plants, hires managers from around the world to help start up or manage its businesses.	$1 BILLION ▲ NA

NOTE: Sales are 1994 or most recent fiscal year, in U.S. dollars. NA=not available. DATA: BUSINESS WEEK

NEW GAME Cronies and connections count for less as the Asians go out in the world and take on all comers

SINGAPORE TYCOON Y.Y. WONG IS EXPANDING INTO ENTERTAINMENT PROPERTIES

empowers workers. "Their idea of success is more control."

Sometimes that style results in family battles, which prove crippling. The Jumabhoys, for example, owner of Scotts Holdings, a $284 million property company in Singapore, are now wracked by family warfare as various relatives jockey for control. In Taiwan, the founding family of the powerful $9.1 billion Formosa Plastics Corp. is also in turmoil. Winston Wang and his father Wang Yung-ching are at odds after th press reported the ma ried Winston was havir an affair with a gradua student. Now, it's doubtf that Winston, long ide tified as the heir appa ent, will succeed his f ther—though Winston credited with professiona izing the company.

Also spurring comp nies to improve the management is the mov toward freer trade swee ing the region. As men bers of the World Trac Organization, Asian cou tries are being forced t gradually drop trade ba riers and liberalize the economies. Deregulatic is washing over Asia a countries vie for the fo eign investment and hu man resources needed t upgrade such key sector as telecommunications and transportation. That's the real si nificance of the meeting of the Asia-Pacific Economic Coo eration (APEC) forum in Osaka beginning on Nov. 15 and cu minating with a heads-of-state summit on Nov. 19. Th direction toward reducing trade barriers is clear. "This is a real wake-up call to Asia business," says Robert C. Moelle vice-president of Booz, Allen & Hamilton Inc. in Singapor **"NO MONOPOLIES ANYMORE."** In this more open climat Asian companies won't be able to rely so heavily on the *guanxi*, or connections, privileged information, and cron networks. That old style may still help win deals in suc emerging economies as China and Vietnam, but connectior just aren't what they used to be as Asian markets becom more demanding and more sophisticated. "Before, *guan* was the driving factor. Now, it's just one of them," says Tr vor MacMurray, director of McKinsey & Co. in Hong Kon "You won't succeed without it, but it's not enough in itself

Another reason *guanxi* doesn't work as well is that mor

STRATEGY 2: Remaining Entrepreneurial

COMPANY	COUNTRY	STRATEGY	REVENUE
ACER	TAIWAN	CEO Stan Shih has broken his PC-making company into small, decentralized units so that each can be highly responsive to the market.	$3.2 BILLION ▲ 71%
LI & FUNG	HONG KONG	Run by the third generation of Fungs. Brothers William and Victor are both armed with Harvard degrees. They have created a global trading company that stays nimble because of its tightly run business units.	$792 MILLION ▲ 14%
SAN MIGUEL CORP.	PHILIPPINES	This beer and food conglomerate is actively spinning off different divisions into separate companies as a way to gain market share and become more efficient.	$190 MILLION ▲ 41%
VTECH	HONG KONG	The territory's biggest electronics company is divided into small, snappy units, making it easier for its hands-on directors to manage successfully.	$650 MILLION ▲ 18%.
YTL CORP.	MALAYSIA	Run by the London-educated son of the founder, this construction company is determined not to become bureaucratic: There are no clock-in machines or set hours for senior staff.	$233 MILLION ▲ 19.1%

an companies are moving into consumer goods and servic- aimed at broader audiences. Citibank, for example, com- es in consumer banking not so much against other Amer- n banks but more with the likes of Thai Farmers Bank l Taiwan's Chinatrust Co. These financial institutions ve no choice but to offer the same ease of banking ough automated teller machines that Citibank does.

So even if a corporate patriarch hands his son a coveted siness, "the son has to create happy customers. Otherwise, customers will protest l won't pay their bills," s Y. Y. Wong, founder of wy Group, a $900 mil- n marketing and distri- ion company in Singa- e. "There are no nopolies anymore."

RDS TO HAUNT. Ultimately challenge of managing a's new giants falls to the t generation. The big stion is whether the sons l daughters are up to the k. There's a telling ex- ssion in Chinese: A fami- wealth won't last three nerations. "Many of my nts are spending sleep- s nights worrying their pires will fall overnight," s Robert K. G. Chia, an lependent management sultant in Singapore.

Next-generation manag- moving to the top often re educated at first-rank U. S. business schools, and many ve lived abroad for years. Take William K. Fung. He l brother Victor run Li & Fung Ltd., an export trading npany founded in 1906 by their grandfather. Having just ently acquired Inchcape Buying Services, they have now nsformed an old-style Chinese company into a $1.5 billion ding corporation. Instead of being limited to low-end nufacturing, it concentrates on design, marketing, distri- tion, and other value-added functions.

They have also extended their geographic region beyond Asia. Their publicly listed company now boasts 25 offices throughout the world, with 2,200 employees (and no other Fungs among them). With a flat organizational structure, broken into strategic business units, the Fungs can provide high-quality goods at low cost by sourcing and manufacturing throughout Asia.

William first ushered in changes when he was summoned home in 1972 to help with the family business. He had just received an MBA from Harvard University. The business was crawling with relatives: Fung's father had 10 siblings,

ADULT WORRIES A mature economy demands that attention be given to distribution as well as production

COMPUTERS ARE PACKED FOR SHIPPING AT A LEGEND WAREHOUSE IN BEIJING

STRATEGY 3: Sticking with the Core Business

OMPANY	COUNTRY	STRATEGY	REVENUE
UN HUNG KAI	HONG KONG	This property company is doing what it does best: real estate and infrastructure. Managed by the three Kwok brothers, each boasting Western degrees.	$2.56 BILLION ▲ 12%
UKAKA	INDONESIA	Run by a team of skilled Indonesian engineers, this infrastructure company is winning major bids in Japan, Hong Kong, and throughout the region.	$74.2 MILLION ▲ 10%
ORMOSA LASTICS	TAIWAN	Although the company has entered the integrated-circuit industry, it keeps a sharp emphasis on remaining the country's pacesetter in petrochemicals.	$9.1 BILLION ▲ 35%
ENONG ERHAD	MALAYSIA	This group of eight listed companies is now selling off assets to focus on infrastructure. Its leading executives want the company to specialize rather than be a hodgepodge of investments.	$1.3 BILLION ▲ 19%
NDOFOOD	INDONESIA	This Jakarta-based food company made it big at home with its near monopoly in flour milling. Now, it's exporting its noodles to China, Chile, and Poland with the goal of being a global player.	$6.0 BILLION ▲ 18.9%

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"I TOLD YOU IT WAS BIG."

and many of them were at Li & Fung. William complained about the nepotism. "Look, William, I sent you to the best schools in America," he recalls his father saying. "Tell me what to do."

So the brash 23-year-old conducted a Harvard case study on his family company. The results: Take Li & Fung public as a way to separate ownership and management. "To his great credit, my father did it," William says. Cousins who hated the business suddenly bailed out. Other relatives held shares, got regular dividends, but were out of management. "If you want to put your house in order, take your company public," William says. In 1989, the brothers took the business private and bought out the rest of the family. Then, they streamlined it and relisted it in 1992.

QUICK STUDY. Although Hong Kong, Singapore, and Taiwan companies probably have a head start in shaking up their managements, the message is also being heard throughout Southeast Asia. Take Indonesian entrepreneur Sukanto Tanoto, 46, whose parents came from China. When Tanoto starts up a business, he immediately brings in experienced personnel from around the globe to manage it. As the founder of $1 billion Raja Garuda Mas, which makes plywood, pulp, paper, rayon, and palm oil, Tanoto prides himself on "entering businesses ahead of the competition."

NO EXCUSES

Former state-run monopolies are learning that the stock market is a stern taskmaster

A high school graduate, Tanoto worked for his father's construction supplies company before he became the first in Indonesia to open a plywood factory 20 year ago. He also started up a lucrative palm oil business by hiring English and Scottish experts who had left Malaysia during a nationalistic period in the early '80s. To manage his investments, Tanoto has brought in Americans, Canadians, and Swedes. In all, he has some 150 non-Indonesian staffers working at the companies. In March, he raised $150 million by floating Asia Pacific Resources International Holdings Ltd., the pulp, paper, and rayon part of his business, on the New York Stock Exchange.

This blending of East and West is particularly pronounced in technology companies throughout the region. In Taiwan,

ROLLED AND READY AT PRIVATIZED CHINA STEEL

$3.2 billion Acer Group is unique. For its first 13 years starting in 1975, Acer was run like a traditional top-down Taiwanese company. But in 1988, Acer Chairman Shih hired a senior IBM executive to streamline his company. The effort failed because the executive forced "consensus" on the local management, leaving no room for disagreement.

Since 1991, Shih has found a middle ground that works. The emphasis is now on giving autonomy to individual business units that can still draw on the company's strategic groups for new technologies. Shih's goal is to have 21 publicly listed Acer companies. Although decision-making is decentralized, Shih fosters a strong Acer culture that helps hold these confederated companies together. "All management

STRATEGY 4: Bracing For More Open Markets

COMPANY	COUNTRY	STRATEGY	REVENUE
CHINATRUST	TAIWAN	The country's leading credit-card issuer is finding its niche by providing a wide range of services for Taiwanese executives working abroad and other overseas Chinese.	$12.6 BILLION* ▲ 20%
PHILIPPINES LONG DISTANCE	PHILIPPINES	Responding to new competition, PLDT has revamped management in a bid to boost sales through improved services and better marketing.	$240 MILLION ▲ 40%
THAI FARMERS BANK	THAILAND	Catching up to Citibank in innovative products, the bank is undergoing a reengineering to become more responsive to customers.	$20 BILLION* ▲ 15.2%
PRESIDENT	TAIWAN	Faced with tough rivals at home, this food company is rapidly expanding into China as a way to spur new growth.	$930 MILLION ▲ 3%
CREATIVE TECHNOLOGY	SINGAPORE	Hit by clones in the market, the creator of the soundblaster is pumping big funds into R&D for new products.	$350 MILLION ▲ 42%

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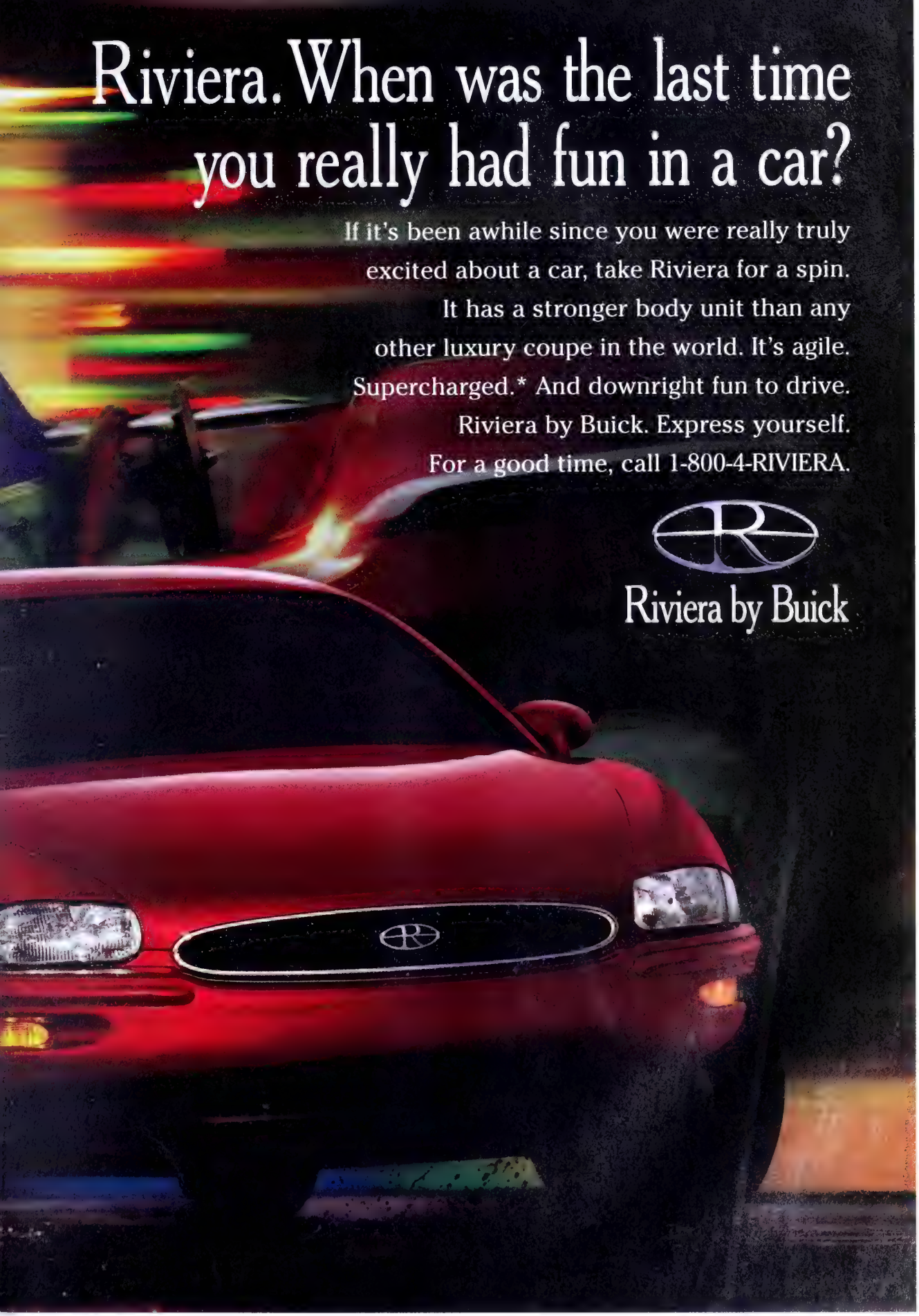
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SHORTCUT Instant managerial smarts can be gained by teaming up for a while with a multinational

A TELECOMASIA WORKER IN BANGKOK

teams have to have a common interest with you," he says.

Like Acer, Taiwan Semiconductor Manufacturing Co. has found a blend of a little East and a lot of West that works. The company is the brainchild of visionary Morris Chang, a well-known chip engineer in the U.S. before he tried to start a Taiwanese venture. Chang saw the need for a foundry business and persuaded the government in 1987 to support the project—not an easy sell when the semiconductor business was in a worldwide slump. Philips Electronics joined in and currently holds a 35% stake.

With his strong U.S. schooling and 25 years at Texas Instruments Inc., Chang takes an American-style company as his model. Indeed, his president is Texan Donald W. Brooks, a colleague for 22 years at Texas Instruments. Why choose an American for a top slot at a Taiwan-based company? Since 55% of TSMC's market is in the U.S., while 20% more is in Europe, "our customers, I believe, feel quite at home with Don," says Chang.

But TSMC is careful not to go overboard in adopting U.S. practices. The company doesn't want to "use too many systems and procedures and become bureaucratic," Brooks says. The two have a very informal way of decision-making as well. "He doesn't write reports to me," says Chang. "We talk almost every day. We've got an American culture though the people below us are basically Taiwanese."

One way to quickly obtain managerial knowhow and technology is to form a strategic alliance, something Thailand's largest conglomerate, Charoen Pokphand Group Co., has developed into a fine art. Its joint venture with New York-based Nynex Corp., called TelecomAsia Corp., has landed a contract to install 2 million new phones lines in Bangkok. It's also getting into related services such as dedicated leased lines, voice mail, and stored data. And TelecomAsia is moving overseas: In the Philippines, it has already secured a contract to install 300,000 lines with Nynex. It also has a cellular phone deal in China.

At first, the Thais relied heavily on Nynex for technology and to start up departments for network design, quality control, supervision of contractors, and government relations. Thai managers, working with Nynex, have assumed greater responsibilities as they rotate through a variety of posts. The venture is giving them training to become general managers for similar telecom projects to be launched throughout Asia, says Ajva Taulananda, president of TelecomAsia.

These alliances are proliferating throughout Southeast Asia. Indonesia's Lippo Group has them with Mitsubishi

STRATEGY 5: Going Public

COMPANY	COUNTRY	STRATEGY	REVENUE
TELKOM INDONESIA	INDONESIA	This state-owned company is raising more than $1 billion of equity in Jakarta, New York, and London as part of the government's privatization drive.	$1.8 BILLION ▲ 30%.
CHINA STEEL	TAIWAN	Once a sleepy state enterprise, this well-run company has been privatized in a major bid to take on the global competition.	$2.9 BILLION ▲ 34%
BIMANTARA CITRA	INDONESIA	This company—with holdings ranging from a private TV station to a plastics maker—went public in July to prepare for competition.	$272 MILLION ▼ 0.6%
ELECTRICITY GENERATING CO.	THAILAND	Spun off from the state utility, EGCO expects to operate more efficiently because management has more flexibility than its parent.	$137 MILLION NA
COL	SINGAPORE	This growing hotel and resort conglomerate is giving regional managers decision-making responsibility particularly in segments of the business that have gone public.	$351 MILLION ▲ 72%

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Astra SPX

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SPX brings a whole new dimension to the world of business aviation. Born of advanced technology, the fuselage fits the human form and achieves the highest degree of aerodynamics. Interior space is maximized while minimizing external frontal drag. As a result, the SPX can fly non-stop[**] from New York City to Los Angeles at a speed of .82 mach.

Climb to the top

Thanks to the new more powerful, highly efficient AlliedSignal 731-40 engines, the SPX offers a range of 3595 miles, 600 miles greater than the Hawker 800. The military-controlled engines were derived from AlliedSignal's successful turbofan engines with a history of more than 28 million flight hours. Truly a global performer, the Astra SPX will fly you to London from New York, non-stop. Combining the 731-40 engines with the new wing design, the SPX achieves extraordinary short field performance. On a 1,000 mile mission, it can take off from runways 500 feet shorter than any of its mid-size competitors. In fact, the SPX can take off from shorter fields than the Beechjet 400A and has a lower operating cost per mile than the Citation V Ultra.

Sweet Suite

The Astra SPX has one of the most versatile and capable avionics suites ever installed in a business airplane. Says B/CA, *"The Astra SPX's Pro Line 4 avionics, in our opinion, is one of the most intuitive layouts we've ever seen. This is Pro Line 4 at its best."*[*] Equipped with four 7.25 inch CRTs, of which two are Primary Flight Displays, a vast amount of data is made easy to absorb and use. Your pilots will quickly feel at home in the cockpit.

Your CFO will approve

"The Astra SPX will score an A+ in the knots-per-dollar-of-purchase-price category on the chief financial officer's tally card."[*] says B/CA. The Astra SPX is part of a new generation of Astra business aircraft designed for corporations, large and small, looking at new ways to reduce overhead and improve profits. After all, it all comes down to the bottom line.

WHAT PRICE SPEED?

It's something we call Astranomics, the new reality in business aviation. For more information, call our president, Roy E. Bergstrom, at **1 609 987-1125** or fax us at **1 609 987-8118.**

*As published in Business & Commercial Aviation, August 1990.

**Boeing 727, probably aircraft of Pan AM, or United or PAA. Hi-Jackers.

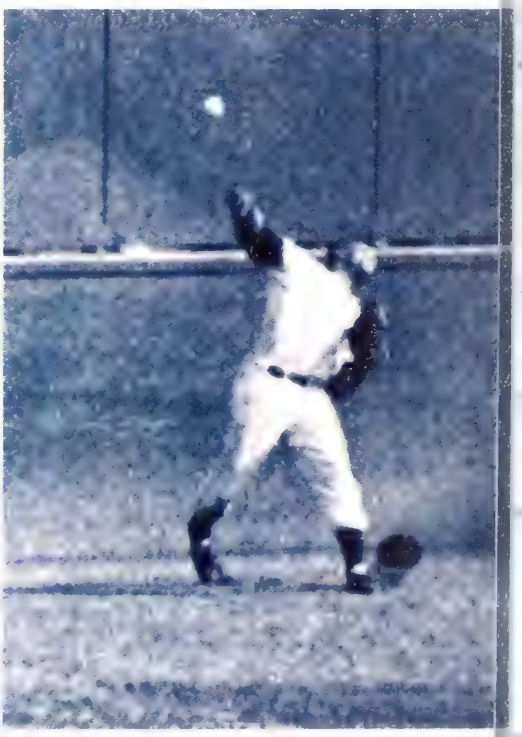
*B/CA Equipped Pro Line 4 as published in Business & Commercial Aviation, 1990 Planning & Purchasing Handbook.

ASTRA

Leadership...by design

24

24



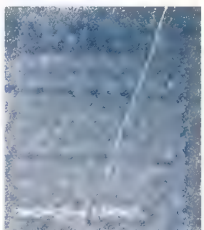
What If You'd Only Traded For That Willie Mays Rookie Card?

He was the "Say Hey" Kid, with two National League MVP Awards. An amazing 660 career home runs. A rookie card now worth thousands. If you'd only known. Well, here's a tip: Advanced Micro Devices is a leader in the booming market for flash memory. With its ability to electrically erase, reprogram and permanently store data, flash memory is a key technology for products such as cellular phones, printers and networks. By driving advanced flash technology and building a new billion-dollar fab, we're making a difference to our customers like Motorola, Hewlett-Packard and Cisco. That type of commitment makes AMD quite a promising candidate for MVP.

If it's a good idea. If it makes a difference. Run with it.

AMD
Run with it.

1-800-222-9323 Internet: http://www.amd.com



Philips, Fuji Insurance, and Alexander Insurance. As partners, the Asians offer access to markets, capital, and the ability to manage local labor, while the multinationals bring in technology and management know-how. "It's a very fertile combination, complementary rather than combative—and a genuine matching of needs," says Redding.

Even companies that get the right management mix and the latest technologies, however, face another crucial task: zeroing in on a sharp business focus. Many traditional Chinese owners who have built conglomerates refuse to sell off acquisitions as a matter of face. It's an admission their group isn't faring well. Indonesia's sprawling Salim Group, for example, owns some 400 companies, which it is now in the process of streamlining.

GOOD RIDDANCE. Malaysia's Renong—a group of eight listed companies that accounts for more than 4% of the market capitalization on the Kuala Lumpur exchange—also is wrestling with how to focus. Aside from its infrastructure companies, it had the country's largest chain of hotels and controlling stakes in the biggest publishing house and in a private TV station. In 1993, Renong started to concentrate on infrastructure, selling off its publishing and media interests for $320 million. "To be honest, we are glad to be rid of them," says Halim Saad, Renong's executive chairman. "It didn't fit into our total mission." His managers now realize that it's better to be an infrastructure powerhouse than a hodgepodge of investments.

Fund managers who comb the region for investment opportunities say a company's ability to decide where to concentrate and then to stick with it is crucial to sorting out eventual winners from losers. "The purer the company and the clearer its strategy, the more the stock market will reward it," says Laura E. Luckyn-Malone, who manages $3.5 billion in Pacific Rim money for Schroder Capital Management Inc. "If a company can't tell me what its strategic plan is, why should I put my shareholders' money in it?"

EVOLVING CAPITALISM. There's no doubt the Asian giants that have their managerial acts together will power their way into the 21st century. In so doing, the very nature of Asian capitalism will evolve from the robber-baron era into a distinctive blend of the world's best managerial and technological knowhow. The companies that make the leap to global status will be able to both fend off multinationals at home and compete fiercely with them in the region's booming markets. Some will penetrate more deeply into the

BRAIN GAIN An East-West meeting of the minds can foster a more informal corporate culture

INDONESIAN ENTREPRENEUR SUKANTO TANOTO CONFERS WITH HIS MANAGERS IN SINGAPORE

STRATEGY 6: Forging Strategic Partnerships

COMPANY	COUNTRY	STRATEGY	REVENUE
CHAROEN POKPHAND	THAILAND	The giant conglomerate is gaining depth by linking up with foreign players such as Nynex in the telecom market and Wal-Mart in retail.	$7.6 BILLION ▲ 26%
WYWY GROUP	SINGAPORE	Y.Y. Wong, founder of this privately held Singapore distribution company, has had long working relations with Western and Japanese multinationals. Now, he's teaming up in telecom, entertainment, and restaurants.	$900 MILLION ▲ 43%
UMC	TAIWAN	The semiconductor manufacturer is expanding its reach by linking up with major U.S. partners, including Cirrus Logic and Xilinx.	$570 MILLION ▲ 53%
LEGEND	CHINA	This emerging computer distributor and manufacturer in China is a marriage of a Hong Kong software house and Beijing's Academy of Sciences.	$480 MILLION ▲ 50%
MITAC	TAIWAN	The island's second-largest PC maker manufactures for Compaq, Apple, and AT&T. It is jointly developing desktop computers with Compaq.	$570 MILLION ▲ 50%

Here's one way to get your attention.

TWENTIETH CENTURY'S INVESTMENT RESULTS

*Average Annual Total Returns as of 9/30/95**

Fund	1-Year	5-Year	10-Year	Life of Fund
Ultra *Investors*	**41.8%**	**29.4%**	**22.2%**	**18.3%** *(11/2/81)*
Vista *Investors*	**54.3%**	**24.7%**	**19.4%**	**14.8%** *(11/25/83)*
Giftrust† *Investors*	**49.6%**	**38.2%**	**26.9%**	**23.0%** *(11/25/83)*
Select *Investors*	**19.0%**	**11.7%**	**13.7%**	**16.6%** *(6/30/71)***
Growth *Investors*	**31.0%**	**18.5%**	**17.5%**	**18.8%** *(6/30/71)***
Heritage *Investors*	**27.3%**	**18.3%**	—	**17.1%** *(11/10/87)*

† Giftrust is an irrevocable trust designed to be given as a long-term gift to someone other than yourself or your spouse and is not available for an IRA.

Sure, we're happy to feature the latest one-year returns in our ads. But we sincerely hope you won't invest in any family of equity funds, including Twentieth Century's, based on short-term results.

The real test of an equity fund, we believe, is how well it does over the long haul, meaning periods of at least 5-10 years. We also believe staying committed to a fund over longer periods is the best way to maximize your potential returns. On that basis, Twentieth Century's **no-load** equity funds have compiled a notable record.

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* Data quoted represents past performance and assumes reinvestment of all distributions. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, and redemption value may be more or less than original cost. **Although Select and Growth were started on October 31, 1958, their performance for the period shown corresponds with Twentieth Century's implementation of its current investment philosophy and practices on June 30, 1971.

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BSW

U.S., Europe, and Japan, raising competitive pressures in those countries.

Certainly, the progress that Asia's best companies are showing in improving their management and moving into new industries holds out the promise that economic momentum will continue to build up in the region. "They're lean and mean, cost-effective, and intuitive," says James B. Haybyrne, chairman of Strategic Thinking Group, a management consultancy based in Hong Kong.

The ability of these companies to break out of the cheap-labor and asset-shuffling stage of capitalism will be of utmost significance. If they manage to do so, these companies will be unleashing innovation and creativity that could raise the quality of Asia's economic activity to levels on a par with those elsewhere in the industrialized world. That's why the dynamos that succeed in marrying their Eastern traits with modern Western management are so important to Asia's future.

By Joyce Barnathan in Hong Kong, with Pete Engardio in Singapore, John Winzenburg in Taipei, and bureau reports

LIVE-WIRE MANAGEMENT AT JOHNSON ELECTRIC

Like many Chinese industrialists of his age, Wang Seng Liang was a natural. After losing his textile business in Shanghai to the Communists in 1949, he quickly reestablished himself in Hong Kong. By the 1960s, he had built Johnson Electric Holdings Ltd. into a prosperous maker of tiny motors for toys. Wang, recalls his son Patrick, "made decisions with his gut and was usually right." But he also leaned toward cheap furniture and kept the factory lights dim to save on electricity.

If Wang typified the older generation, Patrick Wang Shui Chung, 44, is a manager for the next era. Each year, as managing director, he arranges "leadership training" outings at a U.S.-run Outward Bound camp in Hong Kong, so that engineers and managers from Johnson's factory in China can bond with their Hong Kong counterparts. Johnson gives employees everything from low-interest home loans to "creativity" classes for their children.

"NO KING AROUND HERE." For the younger Wang, building a solid core of loyal, motivated middle managers is critical. The company, whose motors are now used in everything from hair dryers to car windshield wipers, had 1994 sales of $250 million. Rising materials costs and heavy capital spending have kept earnings flat. But Crédit Lyonnais Securities analyst Simon Lam thinks Johnson's modernization drive will pay off. "This is a well-managed company," says Lam. Indeed, if double-digit sales growth continues, Johnson could one day surpass Japan's Mabuchi Motor Co.

For that to happen, Johnson needs an organization capable not only of responding immediately to customers but also of staying on the cutting-edge of technology and market trends. Cutting through nepotism and secrecy, the younger Wang, a Purdue University graduate, is ushering in worker empowerment, shared databases, and the ideal of the "flat" organization. "There is no king around here," Wang says. "My job is basically to create the culture so that professionals can do their job."

To respond to hundreds of customers, ranging from General Motors and Black & Decker to Krupp and Mercedes-Benz, Johnson Electric strives to turn a concept design for a micromotor into a product in just a few weeks. That requires working hand in glove with customers and linking design centers in the U.S. and Europe to engineers and factories in Asia.

GLASS WALLS Wang built "interactive centers" at Johnson Electric to encourage staff interaction

To make Johnson agile, Wang is dismantling big departments for design, engineering, research, and testing. Instead, workers from various disciplines are being divided into more than 30 small teams responsible for producing and selling to specific industries such as autos, power tools, or kitchen appliances.

And to encourage staff interaction, Wang redesigned the huge floor at Johnson headquarters, in Hong Kong's Tai Po Industrial Estate, where 150 engineers in white lab coats toil. The floor is now carved into work areas where small industry teams from the engineering and business sides work together. In the middle of the room, Wang has installed what he calls "interactive centers"—a set of rooms surrounded by glass walls where teams huddle for strategy sessions.

Wang has spent just as much energy trying to keep himself up-to-date. Each year, for example, he goes to Harvard business school to immerse himself in an intensive one-week program for young executives. Wang says he borrowed generously from case studies of Motorola Inc. and Procter & Gamble Co. for his approach to worker empowerment and teamwork.

Wang doesn't salivate over every Western management buzzword. He eschews draconian reengineering, for example, because it destroys morale. He's intent on preserving what he considers Asian values, such as loyalty to workers. To become a world-class player, however, it's clear he must shed the secretive, top-down, approach that served his father so well.

By Pete Engardio in Hong Kong

MILEAGE PLUS
Program of the Year
Best Customer Service
Best Elite Program

Stop, you're making us blush.

To the frequent flyers who voted us number one in *Inside Flyer* magazine, thanks. We're tickled pink. And rest assured, it's just the start of what employee-ownership is going to mean for you. Come fly our friendly skies.

UNITED AIRLINES

HEIRS APPARENT

WILL THIS NICE GUY FINISH FIRST?

Don Carty may have what American needs for the future

Ask any industry observer about American Airlines President Donald J. Carty, and the first thing you hear is how nice he is. How respected. How skilled with people.

Meet Carty, and that affability is apparent: The lanky, white-haired Canadian has a strong, direct manner and a ready smile. But if everyone focuses on his style, it's because it contrasts so sharply with that of his boss, the notoriously abrasive Robert J. Crandall, who has made parent AMR Corp. and American a powerhouse. "The way Bob goes at things gives the perception of win/lose," says a former officer. But Carty "attempts to make things work out."

You can't build a career on amiability, of course; acquaintances also credit Carty with keen analytical skills. But his ability to work with others could be a key asset for American in an era when compromise and partnership have become essential in labor relations and in ever more important global alliances.

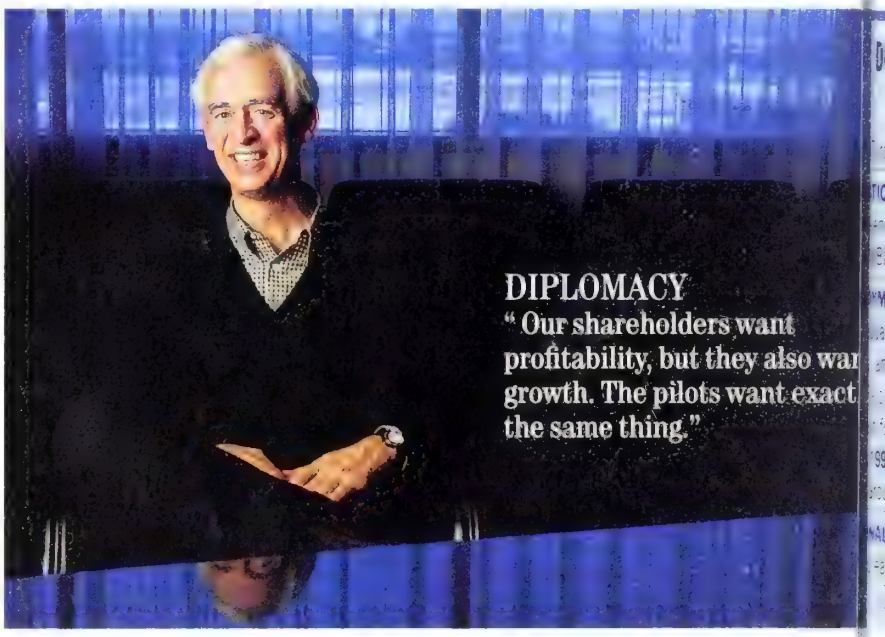
One reason CEO Crandall decided to relinquish American's presidency last March was to put a new face into the crucial and contentious talks with the pilots, for whose ire he has become a lightning rod. Carty, Crandall says, "is the most capable guy we've got."

Since becoming president, Carty has been immersed in labor negotiations, beginning with the 28,000-member Transport Workers Union. In October, the airline and union concluded a pact Carty describes as a "breakthrough" for both sides. Analysts say it could save American more than $100 million a year.

CONCESSIONS. Talks with the less tractable pilots' union are now under way. The outcome, Carty says, will determine whether and how fast American can grow. He argues that without lower costs—including some $300 million in savings per year from the pilots—American can't justify investing in new planes even as it battles lower-cost carriers.

So far, the pilots aren't persuaded. Analyst Raymond E. Neidl of Furman Selz Inc. expects AMR to earn about $580 million this year and $750 million in 1996, after preferred dividends, compared with $343 million last year. "This is not an environment conducive to concessions," says union President James G. Sovich, who nonetheless credits Carty with smoothing the way to some initial agreements.

Carty, for his part, displays a degree of diplomacy not previously evident in American's executive suite. "Our shareholders want profitability, but they also want growth," he says. "The pilots want exactly the same thing." And even if American doesn't hit its savings target, "we'll have the dialogue again."



DIPLOMACY
"Our shareholders want profitability, but they also wan growth. The pilots want exact the same thing."

Such forbearance helped Carty in pursuing American's alliance with Canadian Airlines International Ltd. The two sides started talks in 1991. But in July, 1992, cash-strapped Canadian began exploring a merger with Air Canada. Fearing job losses, union leaders turned to American for a deal to save the airline. They met several times with Carty, who detailed the concessions labor and creditors would need to make.

Carty's knowledge of Canadian business and politics was critical, says Canadian CEO Kevin J. Jenkins. "America drives hard bargains, and Don is a tough as anyone," he says. "But he als in the end knows how to find wher the deal is." The need for governmer approvals held up the accord until Apri 1994. But American, which investe $177 million for a 25% voting stake, ex pects to reap $2 billion over 20 years b selling services to Canadian.

BALANCING ACT. Many observers crit cize American for not moving faster o other global alliances. But plenty of po tential partners remain, says Carty, an American's dominance in the Wester Hemisphere should attract Europea carriers. One foreign airline executiv expects doing business with America to be easier once Carty is in charge.

When that will happen no one know Indeed, one challenge for Carty, 49, is t extend his authority without alienatin his boss, who has no immediate plans t step down. Crandall, nearly 60, sa only that he'll retire "sometime befo I'm 65, including, like, one day before So far, he remains enmeshed in oper tional details. Some friends of Car doubt he'll stick around if Crandall do not loosen the reins.

Yet patience and political savvy ha worked for Carty within, as well as ou side, American. Colleagues say h knows when to push Crandall to reco sider a decision—behind closed doo of course—and when to stop.

Carty's easygoing style has been a parent since his youth in Montrea where he was one of six children in close-knit family. Friends say he car more about partying and dating th

ting the books at Queen's University. ill, he received an honors BA in economics. After working a year at Canan Pacific Ltd., he earned an MBA at arvard University.

He went straight to Air Canada, here he held various finance jobs be-re moving to Celanese Canada Inc. in 74. Four years later, he joined a hotel mpany because it was owned by nerican Airlines. As the hotel unit's nior vice-president for finance, he lped spruce up some money-losing operties just as the real estate market rengthened. American unloaded more an 20 hotels at prime prices.

That success let him move to the air-e side, where he soon became a key oject coordinator for Crandall, the w president. He was in the thick of e wrenching changes necessitated by regulation, including grounding obso-e planes and building massive hubs.

Eager to run his own show, Carty t in 1985 to head Canadian Pacific's CP r. Two years later, CP was sold to Pa-ic Western Airlines Ltd., which be-

DONALD CARTY'S FLIGHT PATH

Toronto, Canada, July 23, 1946

ATION: Honors B.A. in econom-een's University, Kingston, Ont., MBA, Harvard, 1971

OYMENT: 1971–87 Various jobs at ada, Celanese Canada, American s, and CP Air

Rejoins American as senior vice-nt for planning

, 1995 Elected president of AMR Group and American Airlines

ONAL: Three adult children; d earlier this year

DATA: BUSINESS WEEK, COMPANY REPORTS

me Canadian Airlines. Carty passed the No. 2 job to return to American senior vice-president for planning. andall, he says, indicated he had a od chance of reaching the top.

And so he has. But with major deci-ns still hashed out jointly by top ex-utives—and with Crandall's clearly e deciding vote—Carty remains a bit a mystery. Says one former colleague: Ve won't know what Don Carty is ally like until Crandall is gone. He's d to live carefully in the shadow of is killer-whale guy." That Carty will er American's culture is certain. The estion is whether he can do so with-t dulling its fierce and successful edge.

By Wendy Zellner in Dallas

When did you get your first bottle of Jack Daniel's? Write us and tell us about it.

MR. JACK DANIEL CHOSE a square bottle for his whiskey, he said, so folks would know they were getting a square deal.

Mr. Jack wanted a bottle as distinctive as his Old No. 7 Tennessee Whiskey, but not too fancy. So in 1895, the square bottle was born. Since we still mellow our whiskey as he did, we've never changed the shape. If your interest lies in a smooth sippin' whiskey, we recommend Jack Daniel's. But if you like fancy bottles, well, there's no shortage of brands to pick from.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.

REINVENTING THE STORE

How smart retailers are changing the way we shop

INTENSE FOCUS SUNGLASS HUT

Offers nothing but sunglasses–from locations in malls, airports, and anywhere else that has enough traffic. Half its customers seek it out; half are drop-ins. Number of stores: 1,600 worldwide. 1995 sales (est.): $410 million

"NO ONE UNDERSELLS SUNGLASS HUTS," SAYS THE CEO. "WE JUST WON'T ALLOW IT"

THE CAR STORE CARMAX (CIRCUIT CITY)

Applies the "big-box" concept–big selection, good service, and decent prices. Inventory of 500 to 1,000 used cars, compared with 150 for most dealers. Entire transaction, including financing, can be done in an hour. Number of stores: 4 in Southeast, 2 more expected next year. 1995 sales (est.): $288 million

RIVALS CLAIM CARMAX CARS COST MORE. BUT CUSTOMERS LIKE THE SERVICE AND SELECTION

A moment of silence, please, for those fallen on retailing's battlefield. A drumroll, perhaps, for the list of Chapter 11 casualties, lengthened in just the past few months with the names of Caldor, Bradlees, Jamesway, Edison Brothers Stores, and Hastings Group. With the criti- l Christmas season just getting under way, merchants from scount chains to specialty apparel stores are already report- g some of the bleakest sales figures in years. Retail sales nk 0.2% in October after a dismal 0.1% rise in September. he doleful roll call is certain to grow longer still.

Pundits point to the usual enemies to explain the carnage: slowing economy and a strapped consumer. And this would ot be the retailing business if somebody didn't blame the eather: This year, a warm fall had shoppers shrugging at veaters and hats. Economic woes, at least, are real enough. actor in car leases, and consumer debt has hit an all-time gh, stealing 16.6% of disposable income to cover monthly ayments. And with big employers, including 3M and AT&T, nnouncing yet more job cuts, consumers aren't in much of a ood to shop. Consumer spending increased 2.9% in the third quarter—paltry compared with the 5.1% jump in 1994's end-of-year spending spree.

The economic jitters are bad enough. But retailing faces far more fundamental problems of its own. Simply put, this is an industry that has lost touch with its customers. The consumers who made shopping a recreational sport in the 1980s now have less time, less money, and less stomach for the whole experience. With 75% of women working full or part time and still shouldering most of the family chores, consumers have become precision shoppers. Over the past 15 years, they have cut down from three mall visits a month to 1.6. And instead of stopping by seven stores at a clip, they're down to just three. "Besides being tightfisted, the consumer is increasingly stressed out and has lower tolerance for all the imperfections of retail," says Mona Doyle, president of Consumer Network Inc., a Philadelphia market-research firm that surveys shoppers.

Those imperfections are legion: Selections are unsatisfying, prices unappetizing, service unsatisfactory, and hours and locations inconvenient. From cars to food to clothes, shopping

is a pain. But it doesn't have to be that way. As America's savviest retailers are demonstrating, customers will still buy from someone who can offer them what they want, when they want it, where they want it—and all at the right price. In sector after sector, innovators are using knowhow, technology, customer focus, and merchandising muscle to strip retailing of expense, annoyance, and inconvenience.

The approaches of these master merchants aren't all the same. Some hyper-efficient operators, such as Wal-Mart Stores Inc. and Home Depot Inc., are expanding their offerings and shrinking their prices. Single-minded specialists, meanwhile, dominate narrow categories such as sunglasses or pet food with the deepest selections and competitive prices. Still other retailers are staking their claim to convenience, whether it's McDonald's Corp., making sure you can buy a Big Mac wherever you happen to be (box), or CUC International Inc., letting you shop by phone for everything from a new car to a vacation. There are even signs of life among department stores. Despite soft apparel sales, they've defended that market from specialty retailers (page 96).

Cover Story

"SEA CHANGE." These creative retailers are combining with the brutal pressures of the marketplace to drive out the slow, the old-fashioned, and the inefficient. Familiar formats that endured for decades—supermarkets, hardware stores, discount stores, travel agencies, car dealerships—are being transformed or superseded. From vast megastores to tiny one-product kiosks, new kinds of outlets are springing up that look nothing like the stores of 10 years ago. "There is a sea change in the configuration of retailing," says Isaac Lagnad principal at New York consultant Tactical Retail Solutions In "The innovative retailers are the ones that are taking mark share from everybody else." Not all the new formats will su ceed, but as retailers grapple with change, these innovato point the way to the re-storing of America.

In almost every category, the answer to the question what the consumer wants is disarmingly simple: more for les Wal-Mart and Home Depot became national powerhous based on this simple insight. They did it by relentlessly cu ting costs at every stage, from manufacturer to store shelf- and by demanding help from their suppliers, who became i creasingly dependent on them as they grew in size and clou

Since 1984, Wal-Mart's expenses have shrunk from 19.1% sales to just above 15.8% over the past 12 months. Wi yearly sales approaching $100 billion, slated to grow to $2

THAT'S ENTERTAINMENT

INCREDIBLE UNIVERSE (TANDY CORP.

Combines the size and breadth of a superstore with the glitz of a theme park. Sells electronics, computers, and appliances amid product demonstrations, karaoke contests, and laser shows. Number of stores: 17; as many as 10 planned for 1996. 1995 sales (est.): $725 million

OUTLETS STOCK 85,000 ITEMS– AND AIM TO MAKE SHOPPING FUN

'FRENCH FRIES WITH THAT QUART OF OIL?'

After 26 years as a McDonald's franchise owner-operator, Thomas R. Weber can put together a milkshake machine blindfolded. He has bagged fries by the million and trained platoons of store managers in grilling burgers. Now, he's learning how to change the filter on a gasoline pump. "I was reluctant at first, but it's not that big a deal," he says.

Welcome to McDonald's Corp. of the 1990s. Weber's Amoco-McDonald's combo in Lombard, Ill., is one of a half-dozen new formats that are helping the giant chain get bigger still. While investors have focused on McDonald's growth overseas, the Oak Brook (Ill.) outfit has quietly launched the biggest-ever domestic building boom, putting Big Macs in places never imagined before. This year, it will open 1,000 U. S. locations—up fivefold from a few years ago (chart). "We think we can keep up this pace for many years," says Vice-Chairman Jack M. Greenburg. "It's frankly driving most of our growth."

ON IMPULSE. Behind the expansion is an epiphany about its customers. Most harried shoppers (75%) decide to eat Big Macs and Happy Meals just five minutes or less before their purchase. So the more Golden Arches they see—in Wal-Marts, Home Depots, gas stations, or airports—the more they buy. Quick service and good value keep them coming back, but convenience draws them in. True, the building boom carries some risks: It could cannibalize existing-stores sales. And until the new formats are perfected—and standardized—profits will suffer. But amid cutthroat competition, inaction is the greater risk. With his five other nearby stores vulnerable to encroaching chains, "doing nothing would have left me wide open," Weber says.

Today's construction fever is a switch from a decade ago. McDonald's used to focus on prime locations and big, free-standing stores. That worked fine—until choice sites got scarce. In 1991 and 1992, U. S. expansion slowed by one-third, and market share eroded as nimble rivals proliferated on lots McDonald's wouldn't touch. Hungry for growth, the burger giant began trying smaller stores.

McDonald's began with a handful of tiny counters in Hartford storef in late 1991. Within a few mont opened an outlet in a California Mart. But along with the Big M confused shoppers found snow c and hot dogs, a legacy from a c that occupied the spot earlier. T trial and error, McDonald's deve "satellites"—small stores with c menus of the best-selling stand At the same time, it cut the de ment costs of its full-size restau by one-third by standardizing t

GOING PLACES: *Golden Arches sprout at gas stations, Wal-Marts—wherever*

llion in five years, those savings add up fast. And the con-
ast between retailing's quick and its near-dead is stark in-
eed. Bradlees Inc. lumbers along under an expense ratio of
.4%; Caldor Corp.'s is 24.4%. Both regional competitors
e now in Chapter 11 bankruptcy proceedings. Kmart Corp.
evotes 22.2% of its sales to expenses.

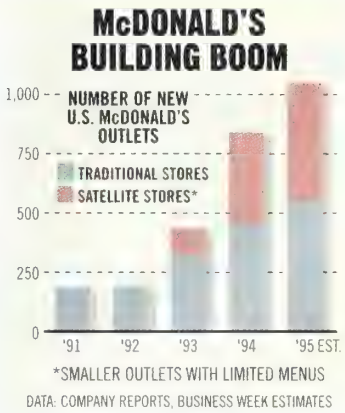
Wal-Mart figured out early on that most of any item's cost gets added after the product leaves the factory and moves through the supply chain. Cost savings came by forcing suppliers to replenish inventory only as it was depleted, by cutting the number of steps on its way to the shelves, and by whittling down suppliers. That efficiency has forced other retailers to struggle to meet Wal-Mart's standards for low prices—or die. "They are exactly where manufacturers were 15 years ago," says Robert C. Blattberg, executive director of the Center for Retail Management at Northwestern University's J. L. Kellogg Graduate School of Management. "What the retailing business has been doing over the past five years is driving out costs."

There's no doubt that retailers need to go through a shakeout before the industry can prosper again. With 18.6 square feet of space for every person in the country—more than double the level of 20 years ago—there are simply too many stores. In 1974, each square foot generated an average of $175 a year in sales. Now, it brings in just $166.

But even as the number of stores declines, those that re-

ent and designs. Now, it's find-
t slots originally intended for
satellites can support those
r traditional stores. Gas-station
ich as Weber's are the same
nd produce the same volume—
size restaurants.

I FOR US." With thousands of
al locations available, McDon-
ies to saturate entire markets
atically—by planning several
t once instead of one store at a
The chain discovered that even
tores in heavily built areas do
Consumers respond to the
convenience by buying McDon-
od more often, boosting the average sales per store. That's bad news for competitors such as Florida's Checkers Drive-In Restaurants Inc., which made hay in the early 1990s by plunking its double-drive-through burger stands on corners where a McDonald's outlet couldn't fit. "McDonald's has taken a page out of our book," moans Checkers CEO Albert J. DiMarco. "It's the right strategy for them. It's tough for us."



The strategy also takes McDonald's into unfamiliar territory. As a small tenant in big stores, McDonald's has had to negotiate with its joint-venture partners on everything from cost-sharing to signs. Cleanliness can be a problem: That's why Weber took over cleaning the gas pumps as well as the rest of the store in his newly opened Amoco, receiving a fee from the oil company in exchange for the service. And many of the new formats are smaller, leading some analysts to doubt that average sales per store will continue rising, as McDonald's expects they will. Mark R. Miller of CS First Boston Inc. believes smaller volumes will limit the potential at smaller stores.

Perhaps. But McDonald's is thinking big. It's already in 700 Wal-Marts, with hundreds more on tap. It has only 18 Home Depot sites open, but it's talking about 800 by 1998. Deals with Amoco Corp. and Chevron Corp. could translate into thousands of new stores. Additional co-branding ventures with supermarket and retail chains, such as Incredible Universe, are under way. And that's all in addition to stepped-up openings of traditional stores. Market dominance will make it tough for the competition, Weber predicts. "These other guys will not be able to stand the heat in the kitchen." And those kitchens will be everywhere.

By Greg Burns in Oak Brook, Ill.

main will get bigger. The "big box" or "category killer" has already made its mark in some segments, such as discounting and toys. Now, the approach of offering mind-boggling assortments of a familiar product at a reasonable price is spreading to some surprising categories. Superstores devoted to single lines, from pet food to baby items to books, abound. Where does their market share come from? Out of the hides of traditional stores, which have already ceded entire departments such as appliances, books, and sporting goods. "You're going to see the same thing happen to other categories," says Thomas I. Rubel, managing partner at consultant Management Horizons.

Already, Home Depot is moving from its standard 103,000-square-foot format to superstores of 135,000 square feet. Office Depot Inc., the dominant office-supply superstore, is experimenting with a 45,000-square-foot store in Las Vegas that will dwarf its standard 30,000-square-foot layout. Barnes & Noble Inc., the $1.6 billion New York-based book chain, is building 30,000-square-foot superstores.

Cover Story

And successful big-box operators are looking to apply their formulas to new categories, especially ones that have failed to keep pace. With 83 new stores this year, Home Depot is still growing fast in hardware and home improvement, but sales and earnings over the past four quarters have been uneven. Now, it hopes to become a dominant retailer in another fragmented market—home decorating—with its new Expo stores. The 130,000-square-foot stores offer do-it-yourselfers access to designers as well as good prices on everything from window treatments to granite countertops. The first three Expos have opened in San Diego, Atlanta, and Westbury, N. Y.

NO-HAGGLE PRICES. Circuit City Stores Inc., the $5.6 billion electronics giant based in Richmond, Va., is applying its big-box knowhow to the most universally despised shopping experience in the land: buying a car. Its four CarMax auto superstores, which sell used cars only, are based on no-haggle pricing, plenty of selection, and great service. Shoppers browse through the offerings from easy-to-use computer kiosks that print a photo, price, and specs for any car selected. They also print the row and parking space, so shoppers don't get lost in the enormous CarMax inventory of 500 to 1,000 cars.

While the car shopper is taking a test drive, CarMax computers complete credit check and prepar the paperwork for an aut loan. Meanwhile, mechanic look over the customer' current car and provide written offer that's goo whether it's traded in on CarMax replacement o not. The process can tak less than an hour. Eac car comes with a 30-da guarantee, with extende warranties available. "W were looking for other op portunities to make an im pact in a major market says W. Austin Ligon, Ci cuit City's senior vice-pre ident in charge of CarMa "Large-volume product whether they are electro ics or automobiles, are g ing to sell very well in superstore environment."

Rivals say CarMax ca generally cost $200 to $3 more than the same thin elsewhere. But custome say the service, environment, and warranty make it wort while. Kent McCammon, a 29-year-old securities analyst Virginia Beach, drove two hours to the Richmond CarMax buy a late-model Ford Bronco. "I don't think it was a bargai but it was exactly what I wanted," he says. "I didn't want visit every car place and bargain. I hate dealing with that Circuit City says its four CarMax locations are still expe mental, but analysts expect it to go national with up to 50 l cations. That would represent a potent threat to tradition car dealers, who get ha their net profits from use car sales. Even more frigh ening: Negotiations for Chrysler new-car franchi are under way.

Car dealers aren't t only ones whose way of se ing is being challenged. Ga E. Hoover, who sold h Bookstop superstore chain Barnes & Noble in 1989, w also casting around for new superstore idea. "I we looking for an industry th was big and growing a

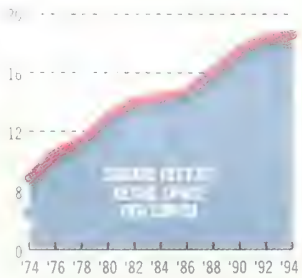
AT YOUR SERVICE

BYERLY'S

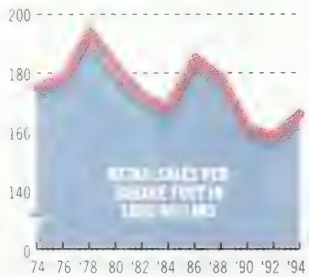
Upscale supermarket chain that offers rushed shoppers lots of prepared foods. Other touches: carpeting to deaden noise and candy kept well out of reach of kids. Expanding to Chicago from Minneapolis home market. Number of stores: 10, with 3 planned for 1996. 1995 sales (est.): $250 million

"WHAT'S FOR DINNER?" BYERLY'S SAYS ITS ANSWER IS BEST

TOO MUCH SELLING SPACE...



...IS CHASING FEWER SALES



DATA: MANAGEMENT HORIZONS

hadn't had any marketing innovation for many years. All my research kept leading me to the travel industry," he says. "Its marketing methods are out of the 1950s."

Last year, the 44-year-old Austin (Tex.) entrepreneur started TravelFest Superstores Inc. to offer one-stop shopping for the leisure traveler. TravelFest customers can pick up visa applications, travelers checks, luggage, and gadgets, as well as newspapers and magazines from around the world. "Everything you want or need is here," says John W. Schwartz, a 40-year-old nurse. Schwartz was at the Austin TravelFest checking out books, maps, and videos on the Czech Republic for a trip next spring.

TINY KILLER. Like most superstores—but unlike most travel agencies—TravelFest is open seven days a week, from 9 a.m. to 11 p.m. "Travel is about discretionary income," says Hoover. "And most discretionary income is spent on the weekends." Hoover says sales at his two Austin stores, with a combined 16,000 square feet, run $10 million to $20 million a year, with 80% of that coming from tickets and reservations.

NO BRICKS, NO MORTAR

CUC INTERNATIONAL

Sells everything from cars to airline tickets by phone and online. Operators search a database of 250,000 name-brand products, which are shipped directly to the customer by the manufacturer. Number of stores: None. 1995 sales (est.): $1.3 billion

COMING ONLINE: VIRTUAL SHOPPING —FOR VIRTUALLY ANY ITEM

Toys 'R' Us, Bed Bath & Beyond, and Office Depot have shown that providing depth of selection and a great price in a single product category can be a powerful concept. But that doesn't mean category killers all have to be cavernous concrete hulks. Despite its tiny kiosks, Miami's Sunglass Hut International is a classic category killer—with a sharply narrower focus. With 1,600 locations throughout the U.S., Canada, Europe, and Australia, Sunglass Hut is still growing fast. Sales have jumped from $100 million three years ago to $244 million this year. Earnings have soared almost ninefold, from $3.2 million to $28 million, while the stock has quadrupled, to the mid-20s, since 1993.

The category it's killing is tiny, but like any other superstore, Sunglass Hut offers convenience, one-stop shopping in its category, and a competitive price. "People's time is so limited, they don't want to walk through a maze of categories," says CEO Jack B. Chadsey. "If they're looking for electronics, they're going to go to an electronics specialty store. Sunglasses are no different."

Just a lot smaller. At 150 to 400 square feet, Sunglass

IN THE BARGAIN BASEMENT OF RETAIL STOCKS

Consumers searching for retail bargains might find the best buys on Wall Street, rather than at the local mall. With the Standard & Poor's 500-stock index up almost 29%, many stocks look pricey. But the broad S&P retail-stores index is up just 10%, down from 17% earlier this year. And while the index has regained some strength recently, analysts say there are still a few good buys.

Investing in retailers today takes chutzpah. As Martin J. Whitman, who runs the $295 million Third Avenue Value Fund, says: "Boy, does the retailing industry stink. You really have to pick your spots."

Whitman's spot: Charming Shoppes Inc., a women's-apparel merchant. Part of the stock's appeal is the lack of a downside, he says. After sinking to 2 in October, the stock now trades around 3. Whitman notes that Charming is well-financed, well-located, and has a promising new merchandising manager. While the company has posted losses in recent quarters, "they could go back to earning 70¢ to $1 per share," says Whitman. "I'm willing to own it for five years to see if they can do it."

GRIM CHRISTMAS. There are lower-risk ways to buy retail. "There's a lot of shakeout in the industry, even bankruptcies among the discount stores. So keep an eye on the strong companies," says Gail Bardin, co-manager of Hotchkis & Wiley Equity-Income Fund. She says J.C. Penney Co. and May Department Stores Co. "are financially solid and have good management and good dividend yields." The risk: "It could be dead money for a while if consumers are overleveraged and Christmas is dead."

Merrill Lynch & Co. analyst Daniel Barry also sees good buys. He likes "growth retailers" such as department store Nordstrom Inc. and discounter Wal-Mart Stores Inc. At price-earnings ratios of 17.4 and 18.7, respectively, "Nordstrom is at one of its lowest multiples in the past 10 years, and so is Wal-Mart," he says.

With Christmas expected to be slow, focusing on companies that can boost earnings without strong sales may pay off. Salomon Brothers Inc. analyst Jeffrey Feiner says May and Sears, Roebuck & Co. can increase earnings by reducing expenses tied to selling, administration, and interest rates. His 12-to-18-month forecasts: 54 for May, up 26%; and 45 for Sears, up 16%.

Many retail stocks deserve low valuations. But others are being oversold. For the patient investor, retail may yield bargains.

By Suzanne Woolley in New York

BATTERED BUYS?

	CURRENT PRICE*	TWO YEAR HIGH
CHARMING SHOPPES (CHRS)	2¾	13⅛
J.C. PENNEY (JCP)	46	58½
MAY DEPT. STORES (MA)	42⅞	45½
NORDSTROM (NOBE)	38	49¼
WAL-MART STORES (WMT)	23⅜	30

*Nov. 14

DATA: BUSINESS WEEK, ANALYST SURVEY

Everybody **answers** to SOMEBODY. Children answe

COLONELS. In the same way, companies learn and grow

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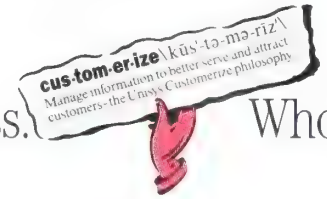
l the ***Customerize*** process. 

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Hut stores can often be found in mall kiosks. But they stock 1,000 different kinds of sunglasses, compared with a rack or two at most other stores. The chain's most successful location, at London's Heathrow Airport, does $3 million worth of business a year in just 300 square feet. With the operating efficiencies that come from size, Sunglass Hut can offer low prices. "No one undersells Sunglass Huts," says Chadsey. "We won't allow it."

But shoppers aren't concerned just with price. They're equally stingy with time. Although consumers have shown they won't overpay, they've also shown they'll pay a fair price for a product, location, or approach that saves them time. That's especially true when it comes to food. Boston Chicken Inc. has expanded—from $5.2 million in sales in 1991 to almost $100 million last year—on the belief that just because families don't have time to fix home-cooked meals doesn't mean they don't want to eat them. To its original rotisserie chicken, Boston Chicken has added meat loaf, ham, and side dishes ranging from mashed potatoes to steamed vegetables to salads. "We sell the kind of food Mom would make if she were around," says Chairman and CEO Scott Beck.

Supermarkets, the staidest of stores, are also waking up to the demand for prepared meals. Consumers spend just 55¢ of every food dollar in the supermarket, down from 70¢ 30 years ago. Byerly's Inc., a $250 million Minneapolis chain, has long specialized in premium service at a price. One of its most profitable areas is prepared food: It carries an array of ready-to-eat entrées, such as salmon with mango salsa for $4.55. Byerly's recently announced a plan to add a Wolfgang Puck Pizza Express, complete with a wood-fired oven. "We are better at answering the question, 'What's for dinner?' than anyone else in town," says COO Dale Riley.

Wal-Mart, meanwhile, could end up doing to the grocery business what it has already done to discounting. As growth slows at its original discount stores, Wal-Mart is unrolling its next concept: the 188,000-square-foot supercenter that grafts a giant grocery onto the discount store. Wal-Mart will have 239 supercenters in place by yearend and an additional 80 or 90 next year.

For old-line grocery chains, the implications are enormous. Wal-Mart is already the second-largest player in the fragmented grocery industry, in which the top 10 chains control less than 30% of the market. In discounting, Wal-Mart alone has a 43% market shar "We're going to go through another evolutionary round," sa Douglas J. Tigert, a retailing professor at Babson Colle who has completed a study on the impact of Wal-Mart's supe centers. "When all the shooting is over, in six or seven yea we're going to have 20% fewer supermarkets." Shrugs W Mart CEO David D. Glass: "We're going to continue to i crease our market share. Where it comes from, I'm not sur

ARMCHAIRS. A few retailers are even trying to make shoppi fun again. Tandy CEO John V. Roach set out in 1992 to crea a chain that's part retailer, part theme park. Incredible U verse stocks more than 85,000 product models—TVs, VC camcorders, computers, software, home audio, and home a pliances—in stores of 185,000 square feet. Each has a rotu da stage for product demonstrations, karaoke contests, las shows, plus a restaurant and a day-care center. Each out generates $55 million to $65 million in first-year sales.

Incredible Universe isn't profitable, and sales at its stores were down 5% in the third quarter. But analys agree with Roach's premise: Too much of retailing is b ing, or worse, unpleasant. "They've got to create a r son for consumers to shop," says Kellogg's Blattbe Barnes & Noble has applied that idea to its sup stores, with their reading nooks and armchairs. "W think we've turned book-buying into a form of recreatio says CEO Leonard Riggio. Partly because of the chain's i pact, the average time spent in a bookstore has doubled to minutes a visit in the past three years.

The great unknown for retailers is the often heralded, n yet-arrived era of online retailing. Few services have attra ed much volume, and anyone who has stared for long minu at the hourglass icon on a screen knows why. But alm everyone agrees that with improved technology, the day near when many products will be ordered online from hon

Retailers who want to know what that day may mean their businesses have only to look at CUC International. T year, CUC will sell more than 10,000 cars, book $400 mill worth of airline tickets, car rentals, and hotel reservatio and offer its customers a choice of 429 ferent TV models. Yet it has no warehou no stores, and no inventory. Instead, has a giant database on 250,000 produc Customers dial in to operators who sea the database for them by model numb manufacturer, or feature. The merchand is shipped direct from the manufacture

CUC prices products almost at co meaning that, even with a shippi charge, it can almost always beat st prices. In fact, it doesn't care wheth customers place an order or just use price to get a better deal elsewhe Revenues, which have doubled in f years, to an estimated $1.3 billion

EVERYTHING IN ONE PLACE

WAL-MART STORES

Supercenters add 50,000 square feet of grocery space to the discount store. Half the food shoppe buy other merchandise, boosting discount-merchandise sales by 25% to 30%. Number of stores: 239 by yearend, 80 to 90 more next year. 1995 sales (est.): $13.5 billion (supercenters only)

SMILE: PHOTO SALES BOOST THE TOTAL, TOO

WAL-MART CHANGES RETAILING'S ECONOMICS

COMPANY (LATEST 12 MONTHS)	SELLING, GENERAL, AND ADMINISTRATIVE COSTS AS A PERCENTAGE OF SALES
WAL-MART	15.8%
CIRCUIT CITY	19.0
KMART	22.2
CALDOR	24.4
BRADLEES	29.4
FEDERATED DEPT. STORES	33.3

DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK

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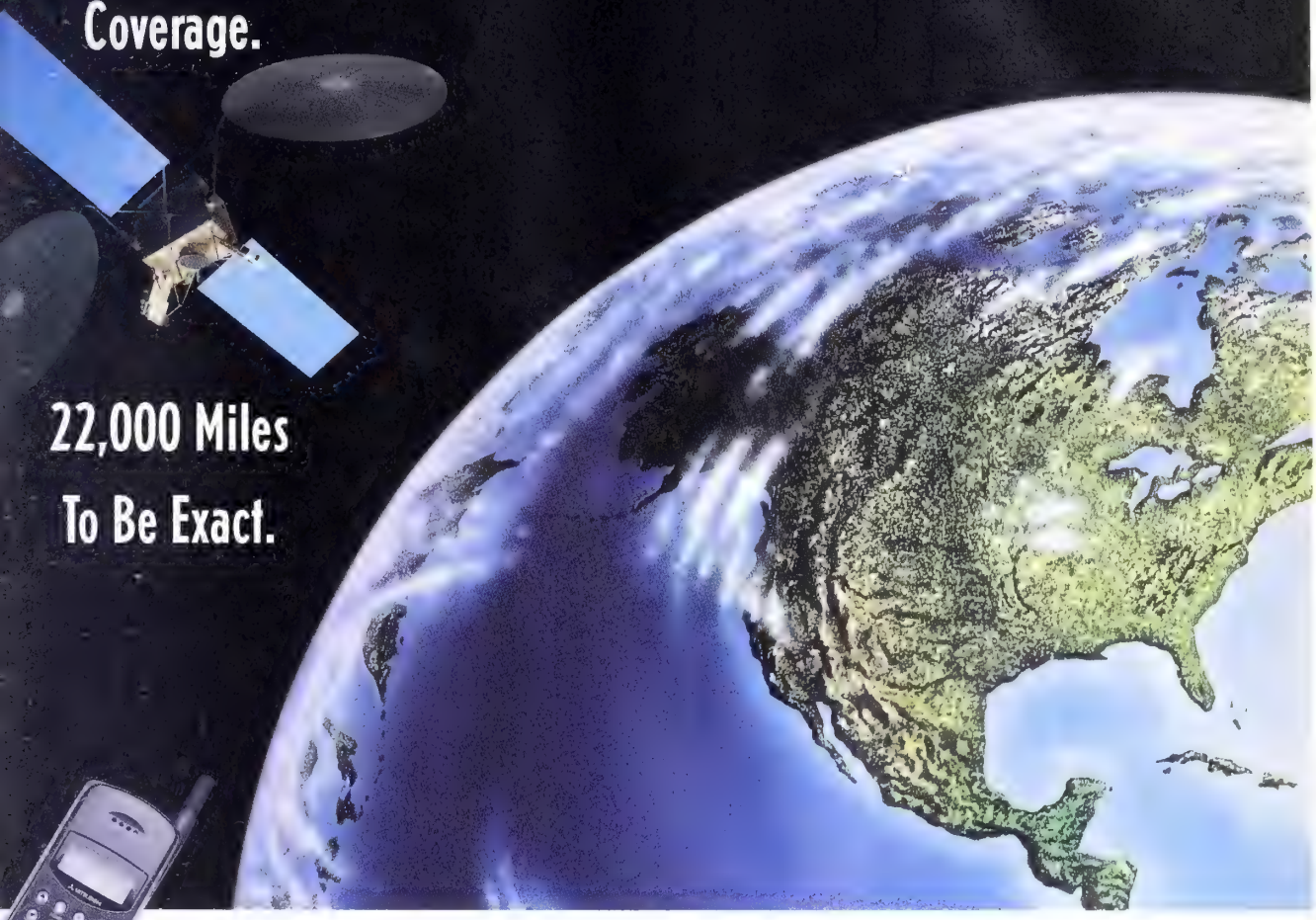

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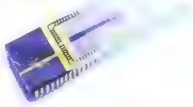

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1995, consist almost entirely of annual membership fees. "The intellectual premise was to offer the right product at a cheaper price with full comparison shopping," says CEO Walter A. Forbes, who helped found the company in 1973, after the idea was tossed around at a dinner at Harvard business school.

Cover Story

CUC—formerly Comp-U-Card—was originally planned as a computer service, but Forbes abandoned high tech in favor of the phone. More recently, CUC has added interactive offerings through most of the online services, and it has moved a version of its service to the Internet. Peter Evans, a stock trader in Ellensburg, Wash., has ordered everything fro washing machines to computers from CUC, mostly onlin "Time is part of it," he says. "But to tell you the truth, the have better prices."

And here's the beauty part: Forbes points out that a other retailers' fixed assets—bricks, mortar and inventory- get more expensive, CUC's assets—computers, databases, an telecommunications equipment—are getting cheaper. That's trend that every storekeeper has to think about as anothe lean Christmas season approaches.

By Mary Kuntz with Lori Bongiorno in New York, Keit Naughton in Detroit, Gail DeGeorge in Miami, Stephan Anderson Forest in Dallas, and bureau reports

AN ENDANGERED SPECIES MAKES A COMEBACK

Just a few years ago, department stores looked like an endangered species. Their prices were too high, specialty and outlet stores were stealing their customers, and the wares looked the same whether you were in Macy's or Marshall Field's. But the death knell was premature. "The shock and surprise of the mid-1990s is department stores' viability," says retail consultant Alan Millstein. "Their bottom lines are a lot healthier than anyone would have forecast."

The resurgence is visible in every region. As part of a $5 billion, five-year expansion plan, May Department Stores Co. in St. Louis says it will open 125 stores around the country and remodel 100 others by 2000. Bloomingdale's Inc., which just a few years ago was closing stores, is expanding into California with plans for as many as six stores. And in 1997, Minneapolis-based Dayton Hudson Corp. plans to open its first new Dayton's store in the Twin Cities area in 19 years, along with a new Marshall Field's in Columbus, Ohio. "We wouldn't build them if we couldn't pencil in a good return," says Stephen E. Watson, Dayton Hudson's president and CEO of the department-store division.

PRIVATE LABEL. What's behind the renaissance? After the battering in the 1990-92 recession, department stores have refocused on their most defendable niches—upscale apparel and home furnishings. Within those niches, they've differentiated their merchandise and cut prices by aggressively developing private-label apparel offerings. "Department stores know they can't compete with the big-box stores and category killers, so they're specializing in what they do best," says James Lowry, marketing department chairman at Ball State University in Muncie, Ind.

Like superstore rivals such as Wal-Mart Stores Inc., department stores are cutting costs by demanding more from suppliers. And their reputation for lousy service is improving, too.

UPSCALE NICHES: *Refocusing on apparel and home furnishings*

One of the biggest comeback stories is Sears, Roebuck & Co. The 800-store chain posted a $2.9 billion loss in 1992 after discounters such as Wal-Mart eroded its franchise. But in 1992, new management led by Arthur C. Martinez, then CEO of Sears Merchandise Group, launched a campaign to turn the chain around. Sears renovated its stores and aggressively recruited name brands, especially in high-margin women's apparel. Then, it ballyhooed the changes with its "Softer Side of Sears" ad campaign. The result: Sears Merchandise Group posted $1.6 billion in operating profit during 1993 and 1994. "People thought Sears was dying a slow death. Its comeback is really a testament to the department store's concept of one-stop shopping," says Robert Buchanan, an analyst at NatWest Securities Corp.

Will department store rebirths continue? If they stay focused on what they do best and keep improving efficiency, there's no reason why not, say consultants and analysts. These dinosaurs are acting awfully frisky.

By Susan Chandler in Chicago

DEPARTMENT STORES ON THE MOVE

MAY

Opening 125 new department stores and remodeling 100 others as part of a $5 billion, five-year expansion plan.

SEARS

Opened 17 new department stores and remodeled another 120 in 1995.

FEDERATED

Opened four department stores in 1995. Will open three more by 1997.

NORDSTROM

Continuing its steady expansion, opened four new stores this year and will open another four in 1996.

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27. Greater Richmond Partnership
28. Mississippi Department of Economic Development
29. Nevada Commission on Economic Development
30. OG&E Electric Services
31. Science-Based Industrial Park Administration

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1 What is your company's type of business?

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4 ❑ Wholesale, Retail Trade 5 ❑ Finance, Insurance, Real Estate 6 ❑ Government
7 ❑ Transportation, Public Utilities 8 ❑ Service Industries 9 ❑ Other - Please Specify:

2 What is your title?

A ❑ Chairman of the Board B ❑ President C ❑ Vice President D ❑ Treasurer, Secretary
E ❑ General Manager F ❑ Division Manger G ❑ Department Manager
H ❑ Other Manager I ❑ Student J ❑ Other - Please Specify:

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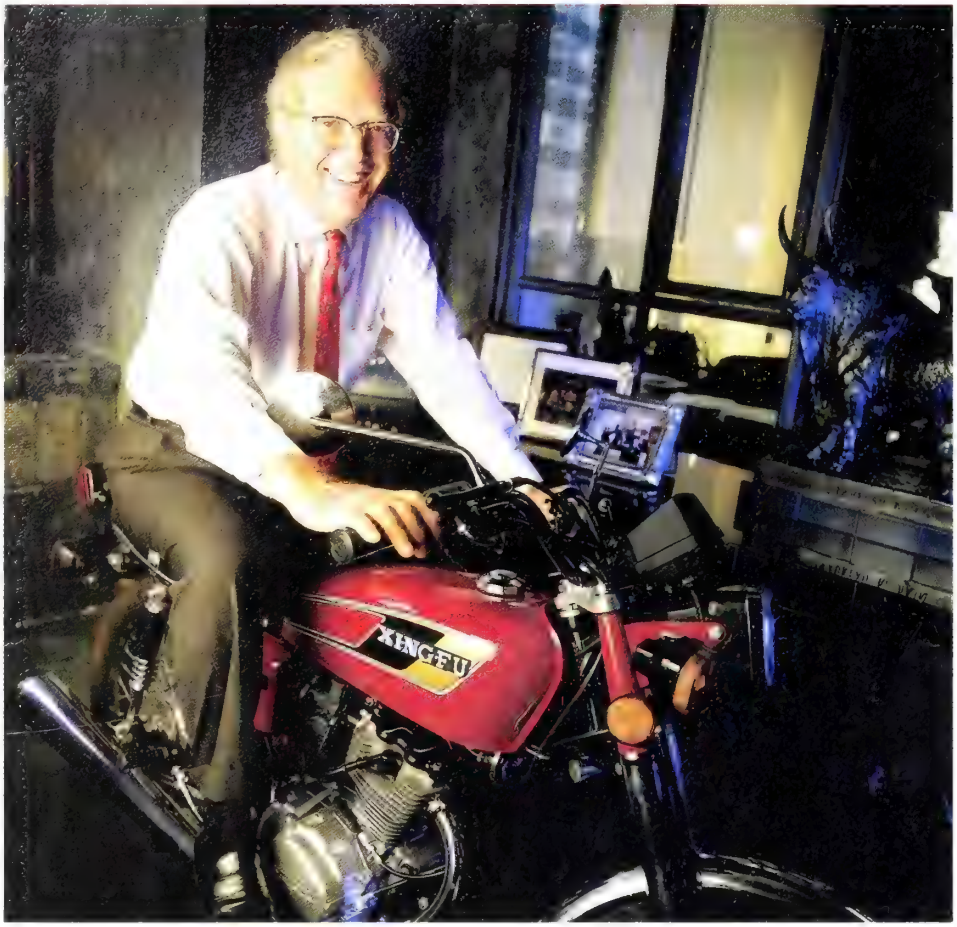


GUNNING: *CEO Cayne is targe ing emerging markets overse*

SECURITIES FIRMS

CAN BEAR STEARNS TRADE UP?

The scrappy firm must retool to become a global contender

A visit to James E. Cayne at his office at Bear, Stearns & Co.'s Manhattan headquarters is never dull. An animated storyteller and natural salesman, the 61-year-old chief executive likes to regale visitors with tales about his travels, philosophy, competitors—and deals. Next to his desk is an oversized deal momento: a shiny red motorcycle, a gift from Ek Chor China Motorcycle Co., a Chinese company that he helped win an underwriting assignment from in 1993.

Cayne, known as Jimmy, is feeling pretty good these days. Bear Stearns has long been one of the most profitable firms on Wall Street, with one of the highest returns on equity—pretax ROE was 21.6% in the year ending June, 1995. Its biggest business, mortgage-backed securities, has been weak, causing 1995 earnings to fall 38%. But the firm rebounded with strong results from other areas in the quarter ended in September. And after over a decade of building its investment bank, the firm is making considerable progress. Cayne is convinced that Bear Stearns is on the cusp of greatness. "No firm ever felt the way we feel about ourselves," he says. "The right word is passion."

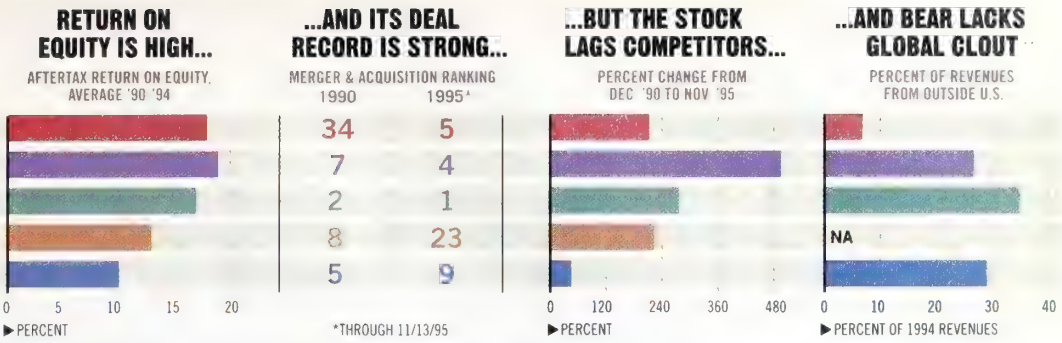
Bear Stearns is an anomaly on Wall Street. Its major competitors ha become highly structured, mu layered, and broadly diversifi But though it is a public compa with over 7,400 employees, "t Bear" retains the feeling of an formal, old-fashioned partners run by partners who take a v ceral interest in their trading po tions. Its culture stresses ent preneurship, thriftiness, a performance—and rich rewards those employees who excel these virtues. The firm is ad not only at mining opportunit but in sidestepping disaste While many firms took big hits mortgage-backed securities 1994, Bear Stearns avoided loss

For all the firm's succe Cayne faces tough challenges. knows that parts of the cult need retooling. He wants to bu investment banking to repla dwindling revenues from mo gage-backed securities, which v hit with a mass exit of five of senior employees this fall. But firm is still at heart a stre smart, every-man-for-himself tr ing house. Investment banki by contrast, is antithetical t trading culture, stressing collaborat and long-term relationships. It ha long way to go to reach its goal of coming a classy investment bank t serves blue-chip corporations with integrated team of employees. "B Stearns as an investment bank is stil its infancy," concedes one employee.

CULTURE CLASH. This is especially t in fast-growing overseas marke where Bear Stearns is a mid-s domestic firm surrounded by glo giants. Only 6.7% of its revenues co from abroad, vs. 27% for Merrill Ly & Co. Instead of making massive vestments to span the globe, B Stearns is spending cautiously in lect emerging markets. "They can s ceed as a specialty player in niche m kets," says Guy Moszkowski, an anal at Sanford C. Bernstein & Co. I "they are certainly too small to b major global powerhouse."

Moving to a more collaborative ture would clash with Bear's compen tion system, which stresses strict for performance. The system also cludes an unusual—and sometimes d sive—two-tier pay policy. The six me bers of the executive committee di up a bonus pool tied to the firm's ove

Bear's Essentials



. The 276 senior managing directors paid mostly based on their own and r individual unit's results. But gener- the top executives make much more n the senior managing directors. In l 1995, the top executives got rich uses—Cayne got $8.8 million and enberg got $8.2 million—while many or managing directors took huge . Cayne says the top executives still a 50% pay cut in 1995, adding that he firm's profits are flat, they get $200,000.

inally, Cayne must prove he is a worthy successor the legendary Alan C. enberg, age 68, known as . Cayne became CEO in 3. He actually runs the and chairs the all-impor- committee that deter- es what everyone but the cutive committee is paid. Greenberg, who chairs executive committee, still bonifies the firm's identity. f Cayne can't meet these lenges, Bear Stearns might e to sell out, most likely big European bank. Any would have to be attrac- to employees, though, be- e the firm is 37% employ- wned. "People here don't t to sell, but we know re being looked at," says ren J. Spector, head of d income at Bear Stearns. ny buyer would have to with Bear Stearns's re- ned quirkiness. It has the est board of directors in U.S., with 38 members. enberg sends internal memos that e a fictitious character named Haim- kel Malintz Anaynikal, who spouts orisms. And employees earn big re- ds for ratting on their bosses for marking trading positions.

RATIO ALGER. Bear Stearns has a ck for seizing opportunities over- ed by others, hiring top people, and ding strong franchises. Examples: in American investment banking, by Stephen M. Cunningham, and mortgage-backed securities, now run by Spector.

The firm's most coveted franchise is clearing and settling securities trades for institutions and money managers. This provides about one-third of its income and is the steadiest part of its earnings, says Smith Barney Inc. analyst Alison Deans. It accounts for a huge 12% of the New York Stock Exchange volume. The unit also makes margin loans and borrows stock so clients can sell short. "Bear plays from its strength, which is financing and clearing," says Long Term Capital Management partner Eric Rosenfeld, a client.

ACE GREENBERG IS A TOUGH ACT TO FOLLOW

> The every-man-for-himself trading house has a long way to go before it's a blue-chip investment bank with an integrated team approach

Bear Stearns's scrappy culture is a clear reflection of Jimmy and Ace. Greenberg started at the firm 46 years ago, making $32.50 a week as a clerk, and became CEO 14 years later. An amateur magician and yo-yo aficionado, he is known for his superb trading skills, philanthropy, quick decision-making, and for harshly berating employees, then forgetting about it 20 minutes later. He sits on the equity trading floor and remains an active broker, with an impressive client list. "I spend all my time trying to bring in business," says Greenberg.

Cayne has his own Horatio Alger story. He went to Purdue University to study engineering, but dropped out after three and a half years when he learned a failing grade in French meant he'd have to stay another year. After a stint in the Army, he worked for six years as a scrap-iron salesman in his wife's family business in Chicago.

Moving to New York in 1964, he earned his living as a bridge player on the "rubber-bridge" circuit, where games are played for money. At age 35, he joined Bear Stearns as a broker. When he interviewed with Greenberg for the job, Greenberg discovered Cayne, a world-class pro, shared his fascination with bridge. Bridge was also Cayne's ticket to his first client, Laurence A. Tisch, one of Cayne's bridge buddies. Cayne was in demand as a partner. "I was like a toy—the bridge toy," says Cayne. "If I was their bridge partner, they would win."

Cayne has a street-savvy air. He uses profanities and reads the New York tabloids. He sits on the same floor as the firm's retail brokers in the New York headquarters. One recent accomplishment was personally recruiting 31 top brokers from competitors.

Individual enterprise, of course, is a Bear Stearns hallmark. But achieving its investment banking aspirations will require teamwork—and a compensation system that rewards it. Investment bankers must develop long-term relationships and cooperate with colleagues with no immediate payoff. "The elevation of the individual is not a good strategy for cooperative tasks," says a for-

mer employee. "There is a lot of bitterness each year because some get paid a lot and others who helped get paid a little." Not so, says William J. Montgoris, Bear Stearns's chief operating officer. "The comp system is a great strength of the firm."

Under investment banking head Alan D. Schwartz, Bear Stearns has made major progress. This year, it assisted Walt Disney Co. when it bought Capital Cities/ABC Inc. and worked for Time Warner Inc. behind Morgan Stanley when Time Warner bought Turner Broadcasting System Inc. These two huge deals pushed it into the No. 5 spot in mergers and acquisitions through Nov. 13, up from 34th in 1990. "Everyone says they are in it for the long-term relationship, but Alan [actually] conducts himself that way," says Richard Bressler, chief financial officer of Time Warner.

Overseas, though, Bear Stearns has stepped on some landmines that show it still has a few things to learn about Asia and investment banking. In 1993, it won the mandate for a $770 million equity underwriting for Consolidated Electric Power of Asia. CEPA was spun off from Hopewell Holdings Ltd., the Hong Kong-based real estate developer owned by Gordon Wu. Bear's bankers worked for months preparing the CEPA prospectus.

CANNY FRANCHISER. But a few days before the prospectus was to be issued, says Cayne, Wu insisted that the deal price be fixed well in advance, which is how deals are done in Hong Kong. In the U.S., deals are priced very close to the sale date. Committing early under the Hong Kong way, Bear Stearns could suffer potentially huge losses on the $770 million issue if the market fell in the interim.

Bear Stearns's credit committee then vetoed the issue as too risky, subjecting the firm to a major embarrassment. Wu awarded the deal to two local houses. Bear was ultimately given a minor role, but only after Cayne threatened to delay the release of a regulatory filing that would permit the stock to be sold in the U.S. Wu declined comment. Cayne says Bear didn't lose any money and that he is still friendly with Wu.

Schwartz insists he remains as committed as ever to overseas investment banking. "We've always built franchises," he says. "We've just never said, build a franchise at any cost." That may seem shortsighted, given its long-term goals. But with its impressive record of franchise building, it wouldn't be wise to bet against the Bear.

By Leah Nathans Spiro in New York, with Pete Engardio in Hong Kong

INSURANCE

FROM NEAR-CASUALTY TO HOT PROPERTY

Savvy investors eye Aetna's $5 billion property/casualty unit

It's a slow-growth business with paltry returns, soft pricing, vicious competition. So how come such smart-money types as Henry Kravis, Sandy Weill, and the Tisch brothers are so eager to get a bigger piece of it?

DEAL? *CEO Compton wants a pact soon*

They're the bidders in an auction for the property and casualty insurance division of Hartford-based Aetna Life & Casualty Co., which is now refocusing on managed health care. Bedeviled for years by immeasurable potential environmental losses and battered by such recent natural disasters as Hurricane Andrew and the Northridge (Calif.) earthquake, the underperforming unit, which has $5 billion in revenues, has been on the block since early this year. But interest has suddenly surged. Sources think a deal could be imminent. "It amazes me that a company you couldn't give away three months ago has now turned into the hottest girl at the prom," says Oppenheimer Inc. analyst Alice D. Schroeder.

What's changed? For one thing, Aetna has begun cleaning up its property/casualty business. In July, it bolstered reserves for future environmental claims by $750 million, to $1.2 billion. Then, the absence of huge catastrophic losses and environmental claims in the third quarter led to a 176% increase in property/casualty earnings, to $102 million.

HAPPY SHAREHOLDERS. Each of the bidders has strong reasons to pick up the property. Adding Aetna to the Tisch-backed CNA Financial Corp., which bought Continental Insurance Co. in 1994, would make CNA the dominant force in commercial insurance. Sanford I. Weill's Travelers Group, which has a knack for streamlining troubled multiline insurers, would wring more profits out of Aetna's high-cost operation.

Kohlberg Kravis Roberts & Co., emboldened by its successful 1992 investment in American Re Corp., is making a big bet on insurance, believing the business is undervalued. It wants to use leverage to buy not only the Aetna unit but Xerox Corp.'s $2.7 billion insurance business. KKR is appealing to the emotions of Aetna's property/casualty managers by offering to lead a buyout that would largely preserve the existing franchise. Aetna executives are said to be leery of a leveraged deal. Others circling Aetna include Jeffrey Greenberg, son of American International Group Chief Executive Maurice Greenberg and a former AIG executive.

Aetna CEO Ronald E. Compton is known to want a deal before the end of the year and is expected to ask for final offers within the next couple of weeks. The company's stock has run up to $75 from $48 late last year on assumptions that its property and casualty business would be sold this year. People familiar with the negotiations say Aetna wants a price above the $3 billion book value.

Unfortunately for Aetna, all the prospective purchasers are known as bottom-fishers and tough negotiators. They are likely to want financial guarantees from Aetna to cover potential future losses. But if Compton can convince the bidders they can't afford to pass up such a choice asset, Christmas could come early this year in Hartford.

By Tim Smart in New Haven

The Likely Bidders

KKR The investment group, which bought Aetna's reinsurance business three years ago, would combine Aetna's business with Xerox' insurance holdings.

TRAVELERS Sandy Weill may be looking to marry Aetna's property and casualty unit with a revamped Travelers, generating significant cost savings.

CNA This Tisch Brothers operation already has a big deal under its belt, the 1994 purchase of Continental for $1.1 billion.

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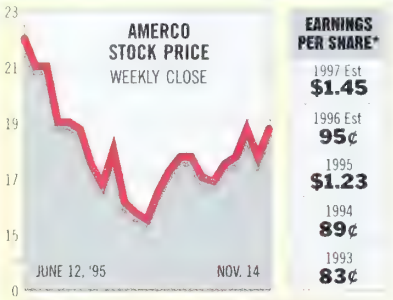
BY GENE G. MARCIAL

U-HAUL: ALL SET TO STEP ON THE GAS

U-Haul is a fixture on America's roads: the vehicle of choice for cost-conscious folks on the move. And now, U-Haul International's little-known parent, Amerco (AMOO), trading at 18, is a choice of value hunters, too.

"Amerco is one of the best-kept secrets on Wall Street, even though U-Haul is one of America's best-known franchises," says F. Van Kasper, president of San Francisco's Van Kasper & Co. He thinks the stock is worth 30 based on improving fundamentals and 40 based on breakup value.

GREEN LIGHT FOR INVESTORS



DATA: BLOOMBERG FINANCIAL MARKETS, VAN KASPER & CO

Since 1988, investors have been wary because of a legal battle among family members who control the stock. On Nov. 1, however, Amerco agreed to buy back 14.9 million shares, or 38% of the stock, from founder Leonard Schoen and five of his children. That will leave Chairman Edward Schoen, one of the sons, and other members of management in control. The settlement will reduce shares outstanding—and crimp fiscal 1996 earnings (chart). Van Kasper puts Amerco's book value at 29 a share based on the reduced shares of 21 million. In 1995, revenues were $1.2 billion.

It's a "win-win situation for shareholders," says Van Kasper. He expects Edward Schoen will buy more shares and take the company private—offering a good price to shareholders. Or the company may remain public. Even so, "U-Haul's prospects are tremendous," says Van Kasper. U-Haul has 60% of the do-it-yourself market, he notes, and more growth could come through increased market share.

U-Haul operates 80,000 trucks and 91,000 trailers, rented out through 1,100 company-owned and 12,400 independent locations. And it has a public storage business, which owns the land and buildings of the storage facilities. Amerco also owns Republic Western, a property-and-casualty insurer, and Oxford Life, which combined account for 10% of Amerco revenues.

WHY VIVUS IS FEELING ITS OATS

This obscure fledgling has yet to make a penny. But it's getting plenty of notice on the Street: Shares are moving higher—from 11 in May to 24 lately. What's going on?

VIVUS (VVUS) aims to be No. 1 in treating male impotence—and is developing therapies for erectile dysfunction (BW—Oct. 30). To some pros, VIVUS is still modestly priced. "Few biopharmaceutical companies have near-term revenue and cash-flow opportunities like VIVUS," argues Wole Fayemi a money manager at San Francisco's Genesis Merchant Group.

Fayemi figures the stock could hit 35 in six months, after VIVUS has applied for Food & Drug Administration approval of its first product—Medical Urethral System for Erection (MUSE)-Alprostadil. He thinks there's a 90% chance of approval.

VIVUS won plaudits from analysts after its third round of clinical tests in October. For MUSE, an applicator like a straw is inserted into the urethra to deliver Alprostadil in a pellet form that dissolves in seconds. Alprostadil relaxes the cavernous and arteriolar smooth muscle while restricting venous outflow. After 5 to 10 minutes, says Fayemi, the drug produces an erection that lasts for 30 to 60 minutes.

In recent tests, 996 men with severe impotence used MUSE, and about 65% ended up having intercourse at least once during the study, compared with 16% of those on a placebo. More than 60% of patients who used the product, says Fayemi, were able to achieve orgasm. Upjohn has a similar, FDA-approved product, Caverject, which is injected into a man's organ. "MUSE will have a significant marketing advantage because of a perception about the pain involved," notes Fayemi. Moreover, data from several hundred patients show "95% to 100% evaluate MUSE as extremely easy to use, he adds, although there is initial pain involved as well.

Fayemi says 1 million to 2 million men every year seek impotence treatment. If the product gets approval in 1996, he expects revenues of $37.5 million in 1997 and $184 million in 199[illegible] when he figures VIVUS will start making money. Among major institutional investors as of June 30: General Electric Investments, BEA Associates, and J. P. Morgan.

VTEL HAS LOTS OF PEOPLE TALKING

For investors, videoconferencing is no longer the hot stuff it once was. But no matter. VTEL (VTEL) is hot even so. Stock of this designer and maker of multimedia videoconferencing systems hit 25 in September, before getting hammered in October along with the other technology issues. But lately VTEL has been on the rebound and is now at 21.

VTEL sells at a price-earnings ratio of 45, but "in its group, VTEL is the classy act that's still cheap," says Robert Kerr, a money manager at Axe-Houghton Associates in Rye Brook, N. Y. More important, VTEL is attractive buyout bait. Kerr upped her holding in October, when the stock slumped to 17.

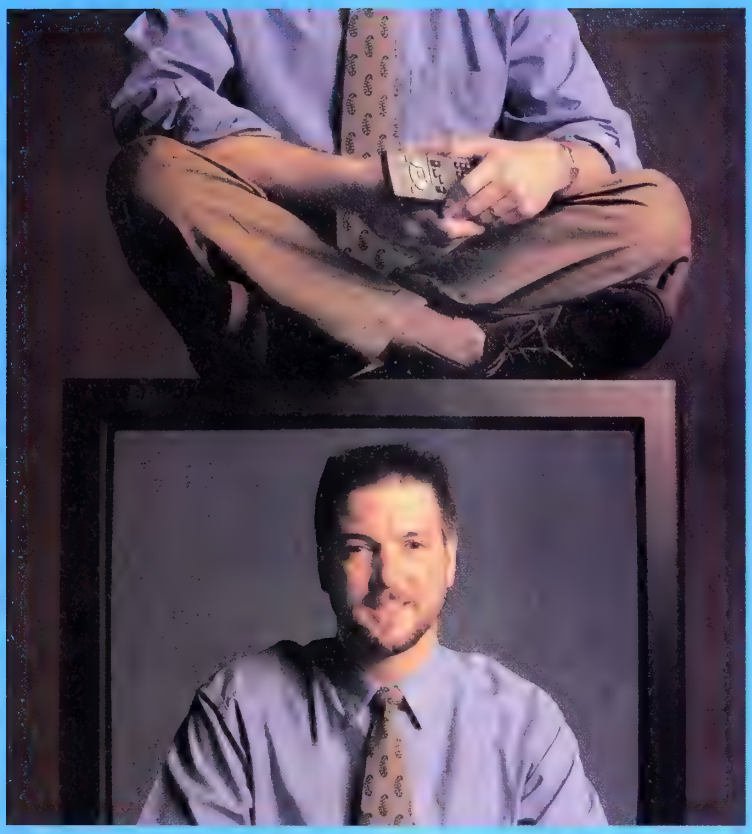
NICE PARTNER FOR AN IBM OR INTEL?

DATA: BLOOMBERG FINANCIAL MARKETS

Kerr says she wouldn't be surprised if the likes of IBM or Intel, which already owns over 10% of VTEL, made a play for a large chunk, if not all, of VTEL. She also suspects Japanese giants might be interested. Even without a buyout, she thinks the stock is worth 35.

VTEL, whose systems integrate videoconferencing with other functions, dominates the corporate videoconferencing market. Intel is also in the field but focuses on desktop applications. VTEL is a major provider of systems to hospitals, government, and schools, where Intel lacks a strong presence. "The fit between VTEL and Intel would work well, considering Intel's broader objectives," says Kerr. VTEL didn't return calls.

Technology has to keep getting smarter. Because people are.



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SPREAD THE WORD: *A $5 million promotional blitz is everywhere*

A $5 million promotional blitz includes posters all over the transit system, wall murals in department stores, TV ads and promotional events. Asahi is also giving away *X-Files* T-shirts, sweatshirts, and baseball caps. Says Segawa: "No matter how big it is in video, it's nothing like TV. You reach millions of viewers."

GOOD BET. For those who know Japan's historical fascination with the supernatural, the show's appeal is no mystery. "Japanese have always loved weird, spooky stuff," says Kozo Maru, the Asahi producer who started campaigning to broadcast the show after seeing one episode last year at the Tokyo International Film Festival. The last U.S. show to pique interest in Japan was the similarly atmospheric *Twin Peaks*, which gained a cult following while also sparking a brief boom in cherry pies.

Peripheral marketing for *The X-Files* is taking off, too. Four publishers are putting out book series. Last Friday, Tokuma Shoten Publishing Co. released a first printing of 80,000 copies of a *X-Files* book for children. Warner Bros. Inc. plans to release a soundtrack next year. Kinki Nippon Tourist Co., in cooperation with Asahi, is advertising a six-day *X-Files* trip to Washington (including a tour of FBI headquarters) and New York for $1,100. Next season, they'll go to Vancouver, where the series episodes were shot.

Asahi is trying to ensure a long run. For one thing, it is doing its own dubbing with big-name actors. Voiceovers can mean the difference between one season and three. Hideyuki Makino, Asahi's publicity manager for *The X-Files*, says: "If the voices don't fit the image, it won't last." That's especially true in Japan, where nearly all fashions are short-lived anyway. "The Japanese bore very easily," says William Pesek, TV critic for the *Daily Yomiuri*, an English-language paper, adding that a run of 24 episodes would be "very good." In the meantime, the profits are out the door.

By Edith Hill Updike, with Tomoko Takahashi, in Tokyo

JAPAN

X-FILES' SUPERNATURAL HOLD ON JAPAN

The spooky series' sizzling rentals spark a move to prime time

It looks as though intrepid TV FBI agents Fox Mulder and Dana Sculley have cracked their toughest case yet: the mysterious Japanese market. Forget autos—when it comes to winning the hearts and minds of the Japanese, it takes a hot new television show with a cult following to break through.

So the planets are aligning for *The X-Files*, Fox Broadcasting's hit about two FBI agents assigned to investigate all manner of unexplained phenomena. Starting Nov. 22, this *Twilight Zone* of the '90s will become the first U.S. TV import to run on Japanese prime time in eight years. Plots have included prehistoric organisms brought back to life, visitors from outer space, and secret government experiments. With the tag line "the truth is out there," the show, now in its third season, has helped Fox's Friday-night ratings and propelled actors David Duchovny and Gillian Anderson into international fame.

Already, video rentals of the program in Japan have been stratospheric, with turnover averaging 20 times a month for the 300,000 copies sent out since March. "That's as big as *True Lies* or *Die Hard*," says Junko Segawa of Twentieth Century Film Corp. in Tokyo. Culture Convenience Club Inc., owner of Japan's largest video-store chain, with 750 locations, has taken in roughly $8 million from *X-Files* rentals since April.

PRICEY ADS. The risk for Asahi National Broadcasting Co., the network airing the show in Japan, is that *X-Files* fever may be about to peak. Video rentals are waning. And Asahi, Japan's most daring network, has gambled and lost with U.S. programming before. *Knight Rider* had a decent run in 1987. But *Dallas* bombed, and *The Cosby Show* never caught on either.

Asahi needn't fret yet. At least nine sponsors, including Sharp Corp. and Opel, are in for the first season, buying all the ads in the network's most expensive time slot—8 p.m. on Wednesday. That's about $44,000 per 30-second spot. The show can fetch such prices because it attracts Japan's prime demographic group: young singles, mostly men, with money to burn.

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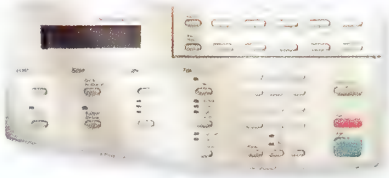

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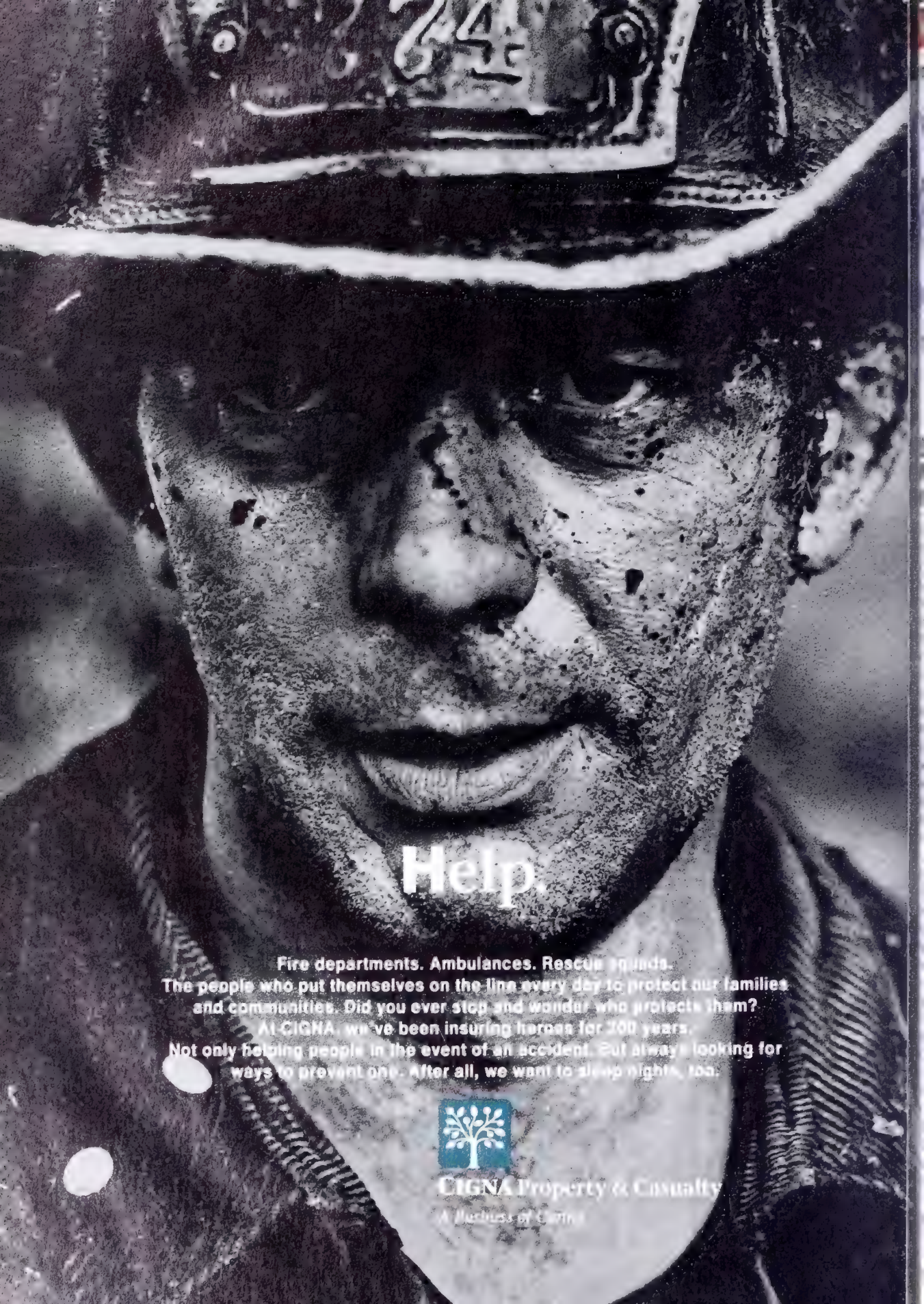
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TED BY PETER COY

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'he manna scale insect, a ive of the arid lands und the Mediterranean, duces manna, a liquid t tastes like honeydew. pea-size insect feeds on saltcedar tree, which was ught to the West as an amental tree around 1837. hout any manna scale ins to suck their sap, saltars have become a weed e in Western streams. y cover 1.5 million acres, ecially from West Texas ough Arizona, crowding native trees and provida poor habitat for birds mammals.

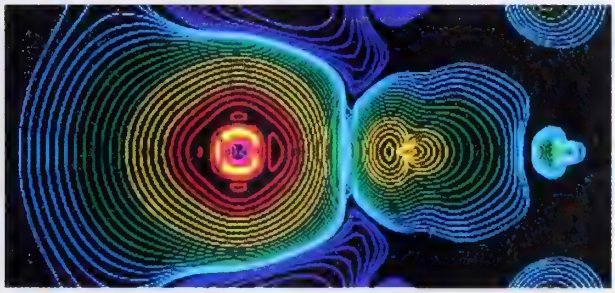
'he U.S. Agricultural Rerch Service, helped by Is-l's Tel Aviv University, ns to release manna scale ect egg sacs along Ari-a's Rio Grande and lower a River by next spring. k DeLoach, a researcher Grassland, Tex., says the ect feeds only on saltcedar, it should make an excel-natural herbicide.

THE 'GRAY GOLD' RUSH IS ON UNDER THE SEA

OFF THE COAST OF THE Carolinas, the ocean-research ship Joides Resolution has drilled the first of four deep holes to sample a fuel reserve sufficient to keep the lights burning for centuries after the earth is squeezed dry of oil and other fuels. Up to 10 trillion tons of carbon fuel—twice as much as all the earth's oil, gas, and coal reserves combined—may lurk beneath the seabed.

You've probably never heard of this new "gray gold," otherwise known as gas-hydrate crystals. No wonder, since even researchers know very little about them. That's because the methane-and-water crystals take form only under intense pressure, and they quickly decompose when brought to the surface.

Charles K. Paull, a professor of geology at the University of North Carolina, is the U.S. leader on the expedition. It's part of the Ocean Drilling Program begun in 1985 and funded by the U.S. and 19 other countries. The current seven-week voyage, which will end on Dec. 19, is aimed at developing better seismic tools to prospect for hydrates in future decades. Fifty researchers on board the ship will also conduct thorough scientific analyses of the crystals.



WHERE NO MAGNET HAS GONE BEFORE

DON'T TRY PICKING UP A BLOCK OF RUTHENIUM WITH A magnet—it'll just sit there. But put one atomic layer of the platinum-like element onto a neutral substrate, and it will be nearly as magnetic as a block of iron. That's the prediction of Northwestern University physicist Arthur J. Freeman, who calculated the magnetic properties of a monolayer of ruthenium using a Cray 90 at the Pittsburgh Supercomputing Center. In the computer-generated image, the pink through light-blue portions represent a large positive magnetic spin. Says Freeman: "We're creating magnetism where none existed before."

While ruthenium may be too expensive to store data on compact disks, the computer design of magnetic materials has already paid off in other ways. Researchers trying to verify Freeman's simulations of iron monolayers on silver ended up discovering that the magnetic poles lined up perpendicular to the plate instead of horizontally—making possible far denser data storage. By 2000, Freeman says, researchers hope to increase density 12-fold, to 10 gigabits of data per square inch.

'BAND-AIDS' FOR SERIOUS ILLNESS?

PUTTING A BAND-AID ON cancer may not be such a bad idea after all. Writing in the November issue of *Nature Medicine*, scientists at the Center for Drug Targeting & Analysis at Northeastern University's Bouve College of Pharmacy & Health Sciences in Boston, say they can construct "cellular Band-Aids" from lipids—the body's fat-like building blocks. Doctors could use such patches to help heart attack and stroke victims as well as treat cancer.

Center Director Ban-An Khaw and Associate Director Jagat Narula say the bandages could plug lesions that develop in the heart when the blood supply is interrupted by a heart attack. To save heart muscle tissue, doctors today administer enzymes that dissolve blood clots and restore flow. At best, this approach saves only 50% of the tissue at risk. Membrane patches, which could be injected along with the enzymes and guided to the injured heart cells by modified antibodies, could save as much as 90% of the tissue, says Khaw. That's important because the prognosis for heart attack patients is determined by how much heart muscle is destroyed. Similar patches could be used to protect brain tissue or deliver drugs to kill cancer cells. Biotech startup Molecular Targeting Technology Inc. in Malvern, Pa., plans to help develop the bandages and fund preclinical trials at Northeastern.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwnov@businessweek.com

MATHEMATICS

SHADES OF ISAAC NEWTON?

If it works, this man's math could be an engineer's dream

At the age of 69, electrical engineer Michael F. Lamorte has one big advantage over his younger cohorts: He learned his craft using a slide rule, not a computer. He had to use insight rather than brute computing power to solve problems. Along the way, he acquired an in-the-bones feeling for how equations govern the world: how oil percolates beneath the ground or how a plate of steel bends and snaps. His name is on 12 patents, from chips to solar cells.

Now, at an age when most engineers are working on their chip shots, Lamorte is trying to introduce a radically different way of using math to mimic nature. While his method requires a computer, in spirit it harks back to the precomputer era—in fact, all the way back to his hero, the English mathematician and natural philosopher Sir Isaac Newton, who died in 1727. Lamorte hopes it will vastly enhance the ability of engineers to design planes, cars, and bridges, create new drugs, and find oil.

Lamorte calls his method CLAMP, for "closed-form solutions applied to a mesh-point field." The basic idea: to transform equations that can't be solved into close approximations that can be. The "mesh-point field" is a virtual grid that's spread over the object being studied, whether a sports car or a hurricane. CLAMP helps generate predictions—"closed-form solutions"—for what happens at each point in the grid.

Lamorte does not lack ambition. He is trying to commercialize CLAMP through a company, Applied Engineering Software Inc., that operates out of his home in Durham, N. C. Newton's methods have advanced science for three centuries, Lamorte says. "Perhaps," he wrote last year, "CLAMP may serve in a similar capacity in the 21st century."

That remains to be seen. Lamorte is keeping the details of his method close to the vest, and many engineers who hear about CLAMP think he's a crackpot. When Lamorte's pitch reached General Motors Corp.'s Research Laboratories in Warren, Mich., James C. Cavendish, the principal research scientist in mathema said: "I had to keep my laugh down.... That's turning lead into go No one from GM has met with Lamo

On the other hand, Lamorte's res to date have intrigued people who h taken a closer look, including high-le staff at the Army Research Laborat at Langley Research Center in Ha ton, Va. Wolf Elber, director of the 1 Vehicle Structure Directorate, wat Lamorte use CLAMP to simulate stresses on a metal plate with a hol it. The method solved the problem personal computer in 0.06 seconds, 30 minutes using the traditional met finite element analysis. Says Elber: wasn't a world-class answer, but to that way at all, given what he's tel us about what he's doing, seems v very interesting."

DIFFERENCES. Lamorte sees himself rying on the tradition of Isaac New who invented differential calculus study such problems as the orbit of earth around the sun. Newton br down the orbit into infinitesimal p which he called differences, and t "integrated" them to produce an ove picture of the orbit's behavior.

Trouble is, most of nature, from e tromagnetism to weather, is descri by differential equations that are herently nonintegrable. In the com er age, engineers have dealt with s equations using finite element an sis, in which they break a problem a mesh of little pieces and repeat run separate equations on each pi FEA, as it's called, is widely used t in design and analysis.

But FEA has some significant p

HUSH-HUSH: *Lamorte won't divulge details about his method*

CLAIMING THE 'HOLY GRAIL'

Electrical engineer Michael Lamorte says he has invented superfast way to predict complex phenomena such as airflo over a jet or output from an o well. Here's how his CLAMP method fared against the mai stream method, finite elemen analysis, in predicting stresse on a metal plate with a hole in

CALCULATION TIME WITH CLAMP	CALCULATION TIM WITH FINITE ELEMENT ANALYSI
.06 SECONDS	30 MINUTES

DATA: APPLIED ENGINEERING SOFTWARE INC

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lems. Setting up the problem is tim consuming, and solving a big one quires a supercomputer, and there's way to tell which of many possible so tions is correct. To be useful, the sults have to be calibrated against re world data. GM's Cavendish says awesome computing demands of F "make it almost impossible to do int active design."

LONE WOLF. Enter Lamorte. His CLA generates equations that describe w happens at each point in the virt mesh covering the object that's be described. Then it knits together those little equations into one big that governs the whole system, so thing that's not done in conventio FEA. Says Lamorte: "The penalty pay is that the equation is not simple you wrote it out by hand it would about 200 feet long."

This month, Lamorte used CLAMP simulate the output of a natural-gas f

While Lamorte worrie that his concept wil be stolen, his secrec arouses skepticism

in an Energy Dept.-funded test at M tana Tech in Butte, Mont. A gradu student, Barry Browne, says CLAMP p duced results more realistic and "ord of magnitude faster" than those of conventional method, finite differe a cousin of finite element analysis. S Browne: "I'm really encouraged."

Michael Lamorte will need a lot m results like that before he will win o doubters. He arouses skepticism by fusing to lay out the details of CLAMP methodology. He says he's afr the concept will be stolen if it's m public. For now, he would prefer take in customers' data and use CLA himself to generate simulations. T leads to another question—would a one but Lamorte be capable of us CLAMP? Says the Army Research L Elber: "This man has a feeling as how higher-order differential equati behave. Where is he training his di ples? He's not."

Lamorte says CLAMP can be taug He says he'll vanquish skeptics by sh force of results. "My response wo then be, 'Who cares? It does the jo You can say this for Lamorte: He's p ting his math where his mouth is.

By Peter Coy in New Y

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LOGISTICS

WILL TI MAKE A BUNDLE ON 'SMART' PACKAGES?

It wants to sell business a Pentagon tracking system

Texas Instruments Inc. has found new savvy—in Savi Technology Inc. If TI can use its chipmaking expertise to lower the price of the nifty package-tracking device Savi makes, according to Marian L. Jeske, a consultant at Landover (Md.)-based Texcom Inc., "this would really revolutionize the whole distribution business." She knows because she works closely with one of the Big Three auto makers on distribution issues.

1 *A cargo-hauling truck gets delayed in traffic; a chip built into a cargo container senses the delay.*

TI announced its purchase of Savi on Nov. 15. The privately held company in Mountain View, Calif., had 1994 revenues of roughly $15 million. While terms weren't disclosed, the price tag is almost incidental to TI.

PACK OF CARDS. With Savi, TI is getting an innovative system that was originally designed to turn the world into a virtual warehouse for the Pentagon. Early this year, the Defense Dept. handed Savi a $70 million, three-year contract for a system that will enable military top brass to pinpoint the location of every plane, ship, and tank—and of every cargo container engaged in shuttling spare parts to repair depots or ammunition to military bases around the world. The Pentagon calls it Total Asset Visibility. The key is a box that's about the size of a deck of cards stuffed with computer chips and a two-way radio. Dubbed SaviTag, these digital ID tags hold information about the container's contents, destination, and schedule—and they periodically send reports on the container's progress back to a Pentagon computer.

TI is betting that the civilian market for the Savi system will be huge, mainly because it can help suppliers assure just-in-time delivery of parts to their customers. It can even track packages or products inside warehouses. What sets Savi's approach apart from rivals, claims Savi President Robert S. Reis, is that its tags are "active systems," while other silicon ID tags are passive. That means if a SaviTag is attached to a cargo container that gets stuck in a shipping yard or a traffic jam, the chip is able to take action—including rerouting itself via a faster mode of transportation. "Our containers can kick the system into being more efficient," he says.

In commercial use, the SaviTags will communicate with the outside world mostly through existing cellular-radio systems or new short-range "interrogator" computer-radios that Savi will install at the 350 intermodal hubs in the U.S. where containers get switched back and forth between railways and asphalt. The tags can also be outfitted to communicate directly with satellites and use the global positioning satellite (GPS) system to plot their location. But Reis expects few customers except the Pentagon to opt for this, since the power required can quickly drain the tag's batteries.

3 *The chip then updates a computer at its final destination about the changing itinerary and arranges for pickup on arrival at the airport.*

TI plans to get rid of the main barrier to wider use of the Savi system: Each SaviTag currently runs about $[illegible]. That's half as much as two years ago, but still too much for many companies given the volumes needed. Jeske says her Detroit client uses 100,000 containers just to ship its windshields. But Lawrence G. Schmidt, senior vice-president of TI's Systems Group, which accounted for 16% of its $10.3 billion revenues last year, is confident the tags can be made smaller and cheaper. He hopes that by next year, TI may even shrink the system to a single chip, an antenna, and a battery. If so, the price might drop to as little as $10.

MISSING CONTAINERS. The first big market for SaviTags, says Reis, will be long-haul intermodal containers. Today, sending one of these truck-size boxes coast-to-coast costs one-third to one-half as much as the $6,000 that a truck shipment runs. Yet the railroads' $5 billion intermodal distribution business pales beside the $345 billion trucking industry's. The reason: At hubs where intermodal containers switch from railroad truck to rail, they often get lost or delayed. Cross-country intermodal transit can be as fast as the four to five days that a truck takes—or up to six times as long.

2 *The chip, determining its current position via satellite signal, surveys alternative transportation. It rebooks shipment by plane, then signals the driver to divert to the airport.*

TI figures SaviTags could help [illegible] the uncertainty. "World-class manufacturers today have pretty solid just-in-time operations within the walls of their buildings," Reis says. But he says, "companies are waking up to how much cost they're incurring outside." TI's Systems Group believes it has the technology to cut those outside costs—and carve out a nice niche defense market in the process.

By Otis Port in New York

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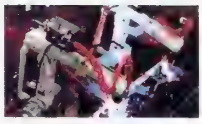

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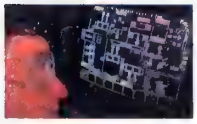

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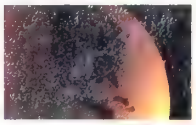

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PHARMACEUTICALS

RHONE-POULENC STILL CAN'T GET ANY RESPECT

Despite great progress, its stock is stuck in the doldrums

Rhône-Poulenc chief Jean-René Fourtou wishes the market would give his company some credit. Fourtou has made huge strides in turning his $17 billion company into a global player in pharmaceuticals and chemicals. He has sold off commodity businesses and made $11 billion worth of acquisitions in pharmaceuticals, specialty chemicals, and agricultural products. In the latest deal, Rhône-Poulenc Rorer, a big U.S. drugmaker that is two-thirds owned by the French company, bagged British drugmaker Fisons PLC for $2.9 billion. The move boosts Rhône from 14th to 11th place in the global rankings of pharmaceutical companies.

All of this has increased profits and future prospects. Yet Rhône's share, at $22 on the Paris exchange, is down from $27, the initial offering price when the French government sold its shares to the public in 1993. Fourtou blames the weak French market and other factors. "It's annoying," he says. "It's a sad situation for stockholders." But it's also a sign that Fourtou has further herculean labors to accomplish before he can make his pharmaceutical acquisitions pay off big. Some analysts even suggest that splitting the company into two parts would unleash faster growth in his drug business.

HALFWAY THERE. What is clear from all of Fourtou's activity is that he is only a bit more than halfway toward creating the kind of pharmaceutical powerhouse he wants Rhône-Poulenc to be. At 16%, the operating margin of Rhône-Poulenc Rorer is well below the 30% level of giants such as Glaxo-Wellcome or Eli Lilly & Co. And there's no blockbuster drug yet to turn out annual sales of $500 million a year or more.

Michel de Rosen, whom Fourtou has put in charge of Rhône-Poulenc Rorer, intends to find his champion products in four key therapeutic sectors—cancer treatments, blood-plasma proteins, anti-infective drugs, and allergy and asthma medicines. "We can't expect to be a leader in eight areas," he says. "Four is enough."

Despite the debt load from the Fisons deal and the need to improve margins, the drug ventures are promising. Fisons, which specializes in asthma drugs and the devices used to inhale them, makes Rhône the world's fourth-largest marketer in this category. Taxotere, a treatment for breast cancer that Oppenheimer & Co. analyst Steven B. Gerber expects to generate revenues exceeding $50 million a year by 1997, should get Food & Drug Administration approval in the U.S. soon.

Fourtou is also spending $100 million a year on gene-therapy and cell-therapy research. Rhône-Poulenc Rorer has set up RPR Gencell, a partnership with 14 biotechnology companies and resea institutes. "That may well be their m important strategic move for the ture," says Samuel D. Isaly, a partner Mehta & Isaly, a New York health-c investment company. Rhône has a just completed the acquisition of plied Immune Systems, a member the consortium that specializes in c therapy technology.

SPIN-OFF TIME? But Rhône's chem operations obscure what's going on pharmaceuticals, which in the first of 1995 made up 70% of its profits less than half of its sales. Heavy structuring charges, mainly in the ch ical sector, have also pulled do Rhône-Poulenc's net earnings for third year running.

Looking for cleaner plays in b pharmaceuticals and ch icals, some analysts wo like to see Rhône-Poul follow the same route Imperial Chemical Ind tries PLC, which spun its pharmaceutical busin to investors as a new c pany, dubbed Zeneca, 1993. Both Zeneca and refocused ICI have thri as separate business "Managers of big chem companies are not pro to be good managers health-care business says one London-based alyst who follows Rhô Poulenc.

For now, Fourtou thi that decentralized management keep both his chemical and drug b nesses on a growth track. But last y Rhône-Poulenc filed documents w U.S. regulators that make it easier the French parent and Rhône-Poul Rorer to team up on deals. Thus, m growth in pharmaceuticals and ac sitions like that of Fisons are lik "The final shoe may not have drop yet," says Isaly. "I could see a comb tion with another [pharmaceuti group." Until the stock rises, Fourt restless reinvention of Rhône-Poul will go on.

By Gail Edmondson in Paris, Christopher Power in New York Joseph Weber in Philadelphia

FRUSTRATED FOURTOU: *But the Fisons deal looks good*

Should Fourtou split the company in half to give wary investors a clearer idea of what Rhône-Poulenc really is?

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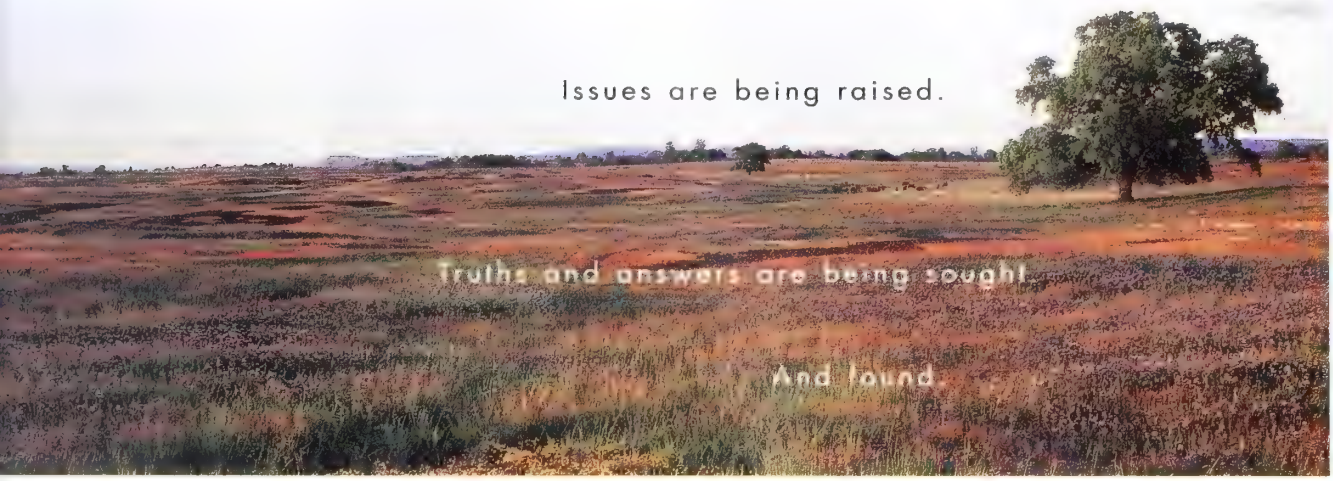

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ENERGY

THIS GUSHER MAY FINALLY START GUSHING

A pipeline deal could speed the flow from the Tenghiz field

Not long ago, communist slogans extolling the working classes decorated the airport road near Almaty, capital of the former Soviet Republic of Kazakhstan. Those signs have since been replaced by propaganda of a capitalist sort—ads by San Francisco-based Chevron Corp. depicting the Golden Gate Bridge and promising a prosperous future for the oil-rich country.

So far, those dreams have not been fulfilled. As soon as Chevron signed a landmark deal in 1992 to develop the $20 billion Tenghiz, one of the world's biggest oil fields, it was stalled by disputes between Chevron and the chief of the Oman Oil Co., a maverick trader named John Deuss. The main disagreement: how to finance a $1.5 billion pipeline to export the oil from the landlocked country. Oman Oil had control of pipeline rights through the Caspian Pipeline Consortium it headed and was leaning on Chevron to provide most of the financing in return for just 25% of the equity. Chevron said no deal. And there matters stood.

Now there's a good chance of ending the impasse. Kazakhstan seems on the verge of cutting a deal with Deuss's most powerful backers, the Russians, to cut Oman Oil out of the action and move ahead with an alternate pipeline deal. "It was promised that by Oct. 1 of this year, financing would be in place for the pipeline. That did not happen," Kazakhstan President Nursultan Nazarbayev said in an interview with BUSINESS WEEK. He says he has agreed with the Russians as well as Chevron and Mobil Oil Corp. to form a new consortium to build an alternate pipeline. A Caspian Pipeline Consortium spokesman says the Kazakhs are to blame for the delays.

> The pipeline impasse led Chevron to stop spending after pouring in $714 million

To get matters moving, the Kazakhs are bringing in some heavy artillery. According to President Nazarbayev, they are negotiating to sell a share of Tenghiz to Mobil Oil. Nazarbayev also says that he and Chevron Chief Executive Kenneth T. Derr have agreed that Chevron may sell 10% of its Tenghiz stake to Lukoil or some other Russian co pany. Chevron is prepared to se stake "for a fair price," Nazarb ev says. Chevron won't comm on details of the talks.

Bringing in Lukoil, often a s rogate for the Kremlin, would g Russia an incentive to relax stranglehold on Tenghiz. It n controls the only pipeline for sh ping oil out, and it's limiting Ch ron shipments to about 45,000 b rels a day, or roughly half of w the field is now capable of prod ing. The 4.5 billion-barrel Teng eventually could produce m times that amount, but becaus the pipeline problems, Chev suspended capital expenditures year after investing $714 million.

What may be going on behind scenes is that Russia is being give role in Tenghiz in return for backing on the other big trove of Caspian oi Azerbaijan. The Clinton Administra has put pressure on the $7.8 billion c sortium led by Amoco Corp. and Bri Petroleum Co. in Azerbaijan to tra port most of its oil out through Tur rather than through Russia's Black ports—as Moscow has demanded. Rus which is capable of disrupting such p if it wants to, may now be acceding the Turkish route as long as it know can get a second major pipeline b from Tenghiz through its territory.

CAPITAL CHANGE? If the pipeline pr lems are solved, Kazakhstan will se much bigger oil boom than the blip raised hopes three years ago. Alre sleepy Almaty is getting something face-lift, as big-time players such as A Elf Aquitane, and Mobil set up shop

Nazarbayev is also trying to m ahead with liberalizing the economy. says he is easing conditions for foreign vestment in oil as well as other ar But the question is how wisely he spend the revenues—if they ever s flowing. One concern is Nazarbayev's culiar insistence that the capital moved about 500 miles north, to the s olate town of Aqmola, which today l enough potable water or housing for new status. Nazarbayev says that move is necessary because Almaty "dead end" and has outgrown its loca But such a shift appears to be on distraction from Kazakhstan's m show—namely, getting the oil to flo

By Peter Galuszka in Almaty, Kaz stan, with Stanley Reed in New Y and William C. Symonds in Toront

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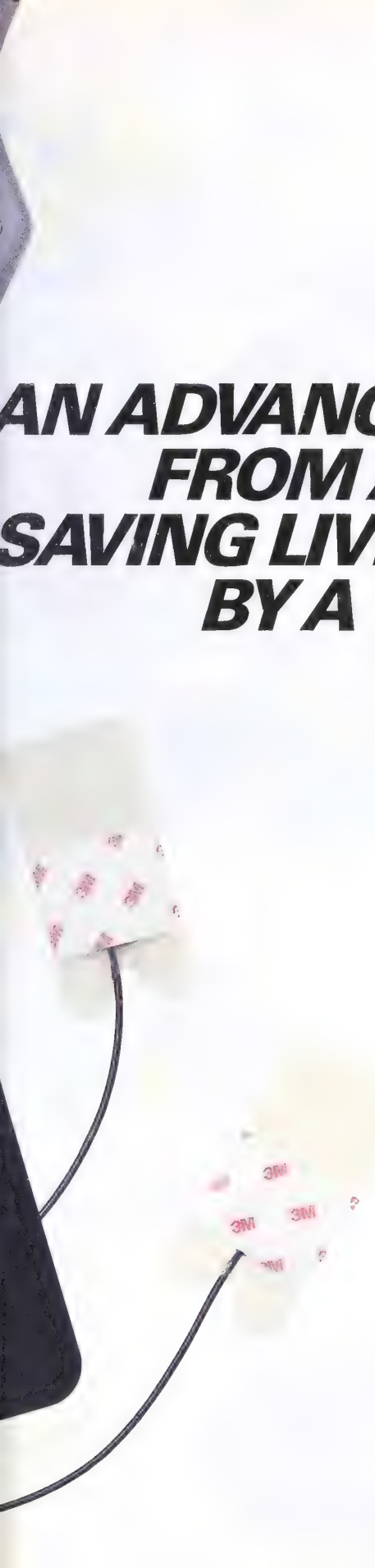

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TED BY WILLIAM J. WINKLER

NGS THAT TRAVEL THE SPEED OF GITAL) SOUND

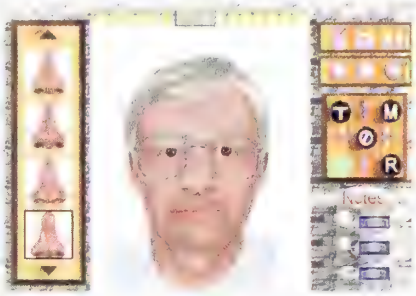
IO STATIONS COMPETE one another to be the to play hot new music ases, and the winner is lly the one with the best delivery. Now, Digital eration Systems Inc. sends rd releases electronically, hat stations receive them e same time and no longave to worry about disks ng lost in transit or disapring in the mail room. Usthis setup, a studio such apitol Records Inc. digitiz- song and sends it via e into DG in San Francis- DG then sends the release s many as 238 stations at , also via phone lines. e 3,500 stations in the . and Canada have DG reers. Stations can store the ic on the receiver or sfer it to tape.

igital transmission costs t the same as sending a by Federal Express, and laims the sound is better. e September, when MCA ords Inc. released Reba McEntire's single *On My Own*, DG has sent out works of five artists. A three-minute song takes nine minutes to send, so initially, only the headline recordings will be released digitally. Next up on the DG network: two newly discovered Beatles recordings from Capitol, coming Nov. 20.

TAKING A BYTE OUT OF CRIME

CREATING COMPOSITE sketches of crime suspects has always been a painfully slow and error-prone assignment. Now, police officers can draw, print, and fax them in color on Windows-based PCs with a program called C.R.I.M.E.S. (for Crime Reduction, Image Management, and Enhancement System) from San Diego-based ImageWare Software Inc. Part of the program, called Suspect ID, allows police to build faces in color on-screen. Another module, called C.R.I.M.E.S. Lab, shows how a criminal suspect might look after aging or trying to disguise his or her appearance.

The company sells separate modules to enhance videotape images and analyze crime records for patterns that could betray suspects. It also plans modules for analyzing signatures and comparing composite images with photo databases. C.R.I.M.E.S. is already being used by 147 police departments, the company says.



That's only a small dent in the market, however: Some 3,000 police departments around the world rely on Smith & Wesson Corp.'s Identi-Kit sets, which have long been used to create sketches by manually overlaying plates imprinted with facial parts. Roughly 500 of those customers use Smith & Wesson's two-year-old Identi-Kit software, which creates black-and-white sketches.

THE SHADES OF THINGS TO COME

IN THE FUTURE ENVISIONED by Planar Systems Inc. of Beaverton, Ore., and Virtual i-O of Seattle, a pair of sunglasses will take you into virtual reality. The two companies have joined forces to bring that vision to market. Planar Systems, a $78 million maker of flat-panel displays, will contribute its proprietary active-matrix electroluminescent display technology. Virtual i-O, a two-year-old private company, expects to adapt the displays to its line of virtual-reality goggles.

If the team-up with Planar works, Virtual i-O says it can make a virtual-reality setup about the size of a pair of sunglasses. That's because Planar's new technology can project screen images onto a square that's less than an inch wide, says Linden Rhoads, president of Virtual i-O. The technology, which was developed under a contract from the Defense Dept.'s Advanced Research Projects Agency, uses circuitry under luminescent materials, providing images much faster than a liquid crystal display, with better resolution and less power. Planar says the companies hope to have a commercial product late next year.

OW THE OTHER HALF HACKS

HEN IT COMES TO COMPUTs, the rich are different. ccording to a new Roper rganization survey commisned by Condé Nast Publitions Inc., Americans rning over $100,000 a year e big users of computers d online services. Of the 000 polled who had a edian family income of 42,000, 56% owned s, vs. about 40% of erall U.S. houselds cited in a recent ankelovich Partners c. study. And 23% the rich used online rvices—mostly for ork—vs. 13% of Amerans in general.

But the rich differ from one another, too. They fall into five categories defined by their attitudes: "Trailblazers," who say they find new technology stimulating, were the biggest PC owners, at 84%. "Contented Affluents," who are mainly interested in home, family and preserving wealth, are the least high-tech, with only 41% owning PCs. Other categories are the value-minded "Savvy Affluents," at 55%; the status-seeking "Strained Affluents," at 49%; and the image-conscious "Luxury Lovers" at 48%.

Each group has its own hot buttons, so PC makers should know their segments. That way they won't try selling a BMW to someone who prefers a Ford Explorer, says Stephen Jacoby, corporate marketing director at Condé Nast.

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THE STRAIN OF GAIN AT AMERICA ONLINE

Business defections and revved-up rivals may slow growth

In early 1993, Stephen M. Case, chief executive of America Online Inc., took stock and made a fateful decision. With 350,000 subscribers, AOL was less than a third the size of rivals Prodigy Services Co. and CompuServe Inc. Case's conclusion: It was time "to slam down the accelerator," recalls the 37-year-old entrepreneur. AOL flooded the mails with free sign-up software—the first specifically designed for Windows. It wooed brand-name content providers—magazines such as BUSINESS WEEK and TV networks such as ABC—and kept adding new areas every week.

The company says it is now adding subscribers at h astonishing rate o 300,000 a month. A that clip, in the is cal year endingo June 30, the com ny will double m bership, to 6.4 i lion, making it a and away the o dog in online services. If that happ analysts say revenues will nearly tri to $1.1 billion. That's because, at h same time that membership is swel AOL says monthly bills are jumpin from an average of $15 last yea t

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The system went down for 3½ hours on a prime-time Friday night recently

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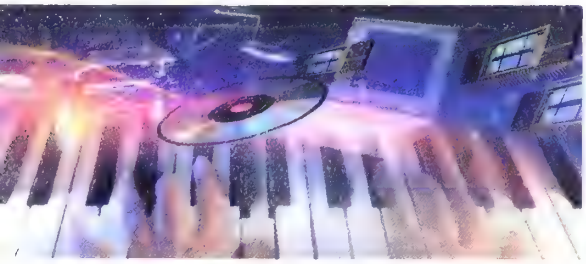

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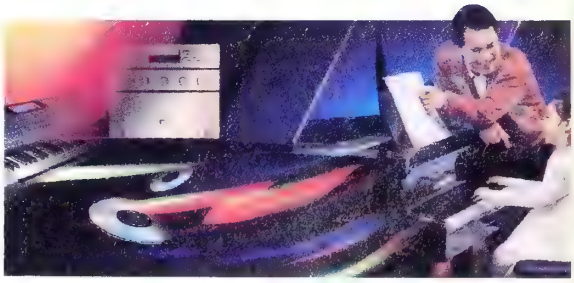

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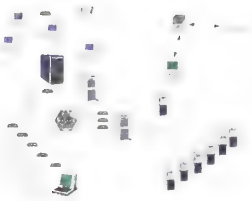

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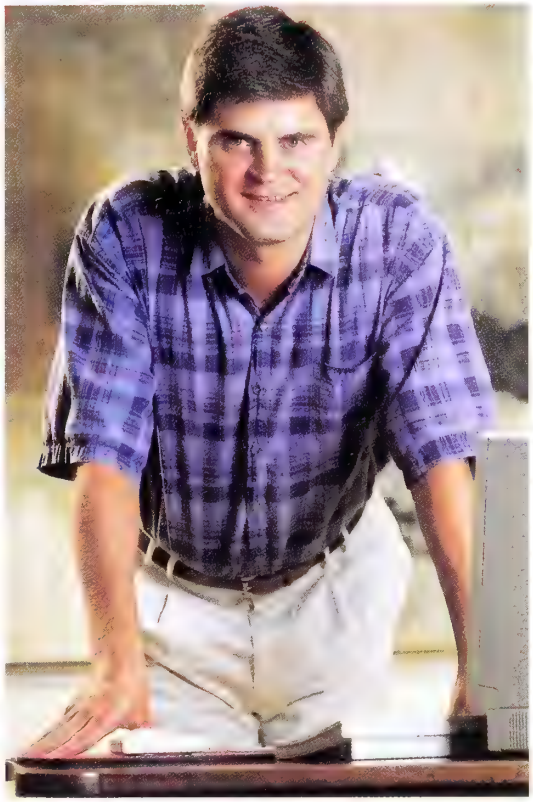
40 now. AOL also expects to in generating revenue from ne advertising and product s of roughly $25 million this r. Another source of reve- will be transaction fees n home banking, which will offered to AOL customers ough a just completed deal n Intuit Inc., maker of cken financial software.

Ieanwhile, AOL has launched ll-new Internet service, Glo- Network Navigator (GNN), is even generating some porate sales. Because it has ess capacity on its data net- k during the daytime, AOL sells data networking to inesses such as Federal Ex- ss. Between that and GNN, expects to bring in an ad- onal $50 million this year. ey're growing like crazy and adening their revenue mix," s Gary Arlen, president of en Communications Inc., a hesda (Md.) market re- rcher. "But the real ques- is, can they keep it up?"



CYBER-CEO While Case has increased revenues some 700% in three years, profits aren't expected until mid-1996 because of acquisitions and marketing costs

ndeed, there are constant signs of wing pains. The service continues uffer from connection problems be- se the company hasn't added com- ers and network connections fast ugh. On Sept. 29, the system went n for 3½ hours during its prime Fri- -night block because of a software . On Nov. 14, another software ch shut off network access.

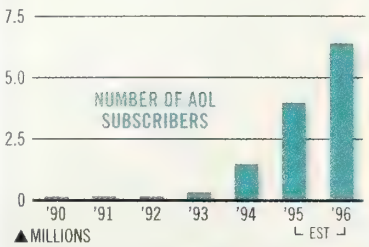
KY BREAK. Service problems, though severe than they have been in the , are annoying members and bump- up the "churn" rate—the number of nbers who drop the service within a r of signing up. Merrill Lynch & Co. mates that AOL's churn rate has pped from 36% to 29% this year. l, that means that for the company grow from 4 million customers now 5.4 million by June, it will have to 2.4 million new recruits and re- ce 1.2 million departing ones. The npany says its new nationwide high- ed network, called AOLNet, should uce service outages.

Grabbing a flood of new customers n among the millions of consumers ring home PCs has been pretty easy ly. AOL's year of meteoric growth, 5, turned out to be a time when st of the company's major competi- s were caught flat-footed. "AOL has n benefiting from the problems of ers," says Thomas Miller, a consul- t for New York-based market research FIND/SVP. Prodigy, once the highflier in consumer online services, has been mired in management upheaval as its parents, IBM and Sears, wrangle over its future. And the Microsoft Network—a huge threat to AOL—has gotten off to a slow start, giving Case a substantial break.

But AOL's lucky streak may be ending. Already, the company has lost two high-profile content providers: In April, NBC bolted for the Microsoft Network, saying the software giant's view of the digital future more closely matches the TV network's own interactive plans. Now, *Time* magazine is negotiating with rival CompuServe, which is dangling a $3.5 million guarantee—six times more than AOL's deal two years ago. "It was the RJR Nabisco deal of the online world," says one *Time* official close to the deal.

It also shows that the former leader of the online pack, CompuServe, is ready to fight back. The Columbus (Ohio) company, a subsidiary of H&R Block, has announced plans to more than quadruple its marketing budget to win new customers this year.

SUBSCRIBERS ARE JOINING IN DROVES



DATA: ARLEN COMMUNICATIONS INC.

The most direct assault will be a new service for neophyte users—whose numbers make up most of the millions who have put AOL out ahead. Being developed under the code name Project WOW, the new service promises to be even easier to use than AOL and is expected to carry a basic monthly fee of $5 to $10. For dedicated Net surfers, CompuServe will offer an Internet-only service code-named Spryte, based on the Spry Inc. Internet-access service it acquired for $100 million in March. The projected monthly cost: just $4.95 for three hours, with each additional hour costing less than $2.

FAT GUARANTEES. CompuServe will also beef up its core service. The 26-year-old network will get a new interface that is more "user-ergonomic." Company officials also hint that *Time* isn't the only big-name content provider they'll try to lure with fat guarantees. Like AOL, CompuServe is now willing to rack up short-term losses to gain members. "We're dealing with one competitor that isn't making any money," says CompuServe Executive Vice-President Barry F. Berkov. So "we took a position that rather than maximize profits, we're making incremental investments" to improve the service, he says.

AOL's reaction to the possible loss of *Time* has been to downplay the magazine's significance online. "If our competition wants to spend big bucks to steal brand names," says Mark L. Walsh, an AOL senior vice-president, "I don't think we're prepared to get into a bidding war."

With good reason. While Case has pushed revenues from $51.9 million to $394.2 million in just three years, he has not generated much in the way of profits—and analysts don't expect AOL to be cash-flow positive until the fourth quarter of fiscal 1996. Charges related to a string of acquisitions and the costs of luring new members to the service produced an operating loss of $19.3 million

PHOTOGRAPH BY ROB NOYLE; CHART BY ROB DOYLE-EW

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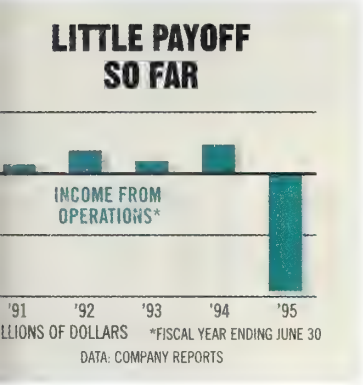
he year ended on June 30. Had ompany used less aggressive ac- ing practices, the loss would have more like $70 million, says AOL's or-relations chief, Richard E. Han- OL reported the lower figure be- it capitalizes the costs of acquir- ew members—about $111.8 million ear—rather than recording them penses against current earnings. If were to expense membership-ac- ion costs, the $85 million operating that Merrill Lynch predicts for would turn into a $100 million loss, n says.

ile critics—including a huge block rt sellers—say this is questionable nting, Case says it is perfectly pru- He points out that other service anies—including rival Compu- —do the same. He says the two- amortization period is actually con- tive since, according to his own rch, the typical AOL customer is



to stick with the service for 40 ns. Most naysayers balk at both fig- noting that AOL has added the bulk members over the past two years far, the short sellers who predict- at the wheels would spin off Case's th machine have been humbled. stors betting against Case have ed hundreds of millions. With the et placing stratospheric valuations yber-startups such as Netscape munications, AOL has seen its es skyrocket, to more than $80 $26 at the start of the year. The s have split twice since the initial c offering at 11½ in March, 1992, nother two-for-one split is sched- for Nov. 28. The hot stock is a to AOL's growth formula because uses stock to make acquisitions o finance expansion.

onetheless, the pitfalls are there. e growth machine sputters, the s could have their day. In order to moving toward profitability, the any must keep bringing in new mers. Without steady growth, AOL

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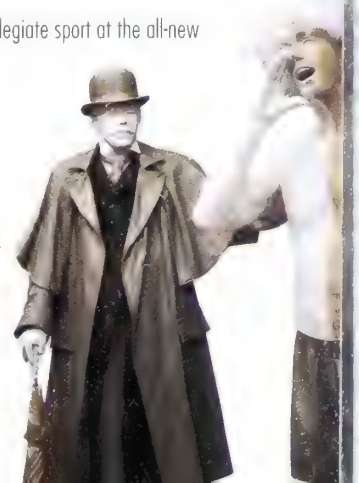

College Football Hall of Fame

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not be able to cover accumulating tization charges—now approach- 132.7 million. And a solid mem- ip will be increasingly critical as ompany tries to extract more rev- from advertising and product which it expects to double, to million, in fiscal 1997.

AIN FARES. The contest for online mers could get far fiercer, however. dition to stepped-up efforts by Mi- t and CompuServe, there will be s of Internet-access services trying e consumers with low monthly or cruising the World Wide Web. etitors include telephone compa- hat can afford to offer connections ck-bottom prices. Forrester Re- n Inc. in Cambridge, Mass., pre- that the Web will steal millions tomers from online services.

at's why Case is keeping his foot e accelerator. He's plowing mil- into a new TV ad campaign and is ding overseas. In March, AOL an- ed a 50-50 venture with media Bertelsmann to develop online es in Europe that will be launched rmany and Britain before year- with service to France by next Case says he's also pursuing deals pan, Canada, and Latin America. uServe, meanwhile, already has 00 subscribers outside the U.S. lans to add 1 million in 1996. Both anies will face stiff local competi- such as Europe Online, backed by sortium of powerful publishers.

anwhile, AOL will have to deal growing pains at home as well. content providers complain that se of rapid growth, they get scant tion from the AOL technicians they rely on to spiff up their on- roducts. "They pay no attention you need something and are con- y after you to generate more traf- arps Steve Hodas, director of on- ervices for *The Princeton Review.* nswer is to give content providers shing tools by mid-1996 that will em make changes on their own. s the way the Microsoft Network tes. But because MSN content pro- s roll their own, Microsoft gives a bigger cut of its hourly fees— hing AOL content companies will demand as well.

rtainly, AOL will have to be nimble ay ahead of the curve. So far, it roven that it can coast on an open ay. But the real test is how well ride over rough roads. For now, is hoping to fly over any online les.

By Mark Lewyn in Vienna, Va.

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STRATEGIES

FROM SCANDAL TO SECOND PLACE

But Tenet's footing in the hospital industry is still not sure

By now, it seems little more than a distant nightmare. Just two months after taking over at National Medical Enterprises Inc. in 1993, CEO Jeffrey C. Barbakow received a 7:30 a.m. phone call: 600 federal agents were rifling through records at NME's Santa Monica headquarters and at several of its psychiatric hospitals, in search of evidence of billing fraud and malpractice. By the time Barbakow arrived, a noisy phalanx of TV reporters was clustered at his office watching government workers roll out truckloads of documents. "It was a bad day," he says. "A complete mess."

In the end, Barbakow would have to pay out more than a half-billion dollars to the government, insurance companies, and irate patients to clean up that mess. But the 51-year-old former Merrill Lynch & Co. investment banker did far more than simply open the corporate wallet. Barbakow—who left Merrill to run Kirk Kerkorian's MGM/United Artists Communications Co. in the late 1980s—was then better known for Hollywood dealmaking than for health-care expertise. But he has since brought the scandal-ridden company back from the brink. Today, with $5 billion in revenues and 75 hospitals from California to Florida, the renamed Tenet Healthcare Corp. ranks second only to the $15 billion giant, Columbia/HCA Healthcare Corp.

To restore Tenet to health, Barbakow jettisoned the troubled psychiatric division, trimmed down to the core U. S. hospitals business, and made acquisitions to broaden its base. Now, as [illegible] health-care market consolidates, [illegible] hardest part may be yet to come. [illegible] bakow is racing to sell Tenet's inter[illegible] tional operations to fund U. S. grov[illegible] His goal: Ensure that Tenet rema[illegible] big enough to compete with acquisit[illegible] happy Columbia as insurers and H[illegible] shift to large managed-care network[illegible]

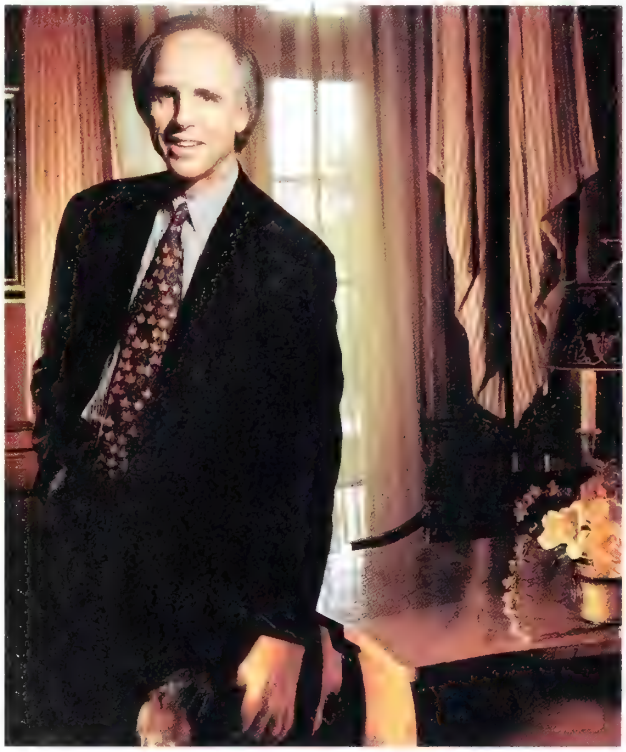
But with far less financial muscle t[illegible] Columbia, Tenet can't be sure of succ[illegible] Certainly, its performance has impro[illegible] Operating profits for the fiscal year e[illegible] ed May 31, 1995 were up 30%, to $[illegible] million, on revenues of $3.3 billio[illegible] 14% gain. This year, analyst Todd R[illegible] ter of Dean Witter Reynolds Inc. e[illegible] mates earnings will rise to $701 mil[illegible] as sales hit $5.1 billion. But acquisit[illegible] have left Tenet deep in debt. To[illegible] Tenet's debt tops 64% of capitalizat[illegible] compared with Columbia's 47%. Wo[illegible] Tenet's operating cash flow is nil, w[illegible] Columbia is rolling in dough. "Barba[illegible] has proved he can cut deals, not ope[illegible] a hospital chain," says Richter.

HOUSECLEANING. Still, it's a surp[illegible] that Tenet even survived. More th[illegible] dozen insurance companies sued Te[illegible] charging it with fraudulently bil[illegible] $750 million in care. More than 150 [illegible] mer patients also sued for everyth[illegible] from physical abuse to false impri[illegible] ment. "We were all wondering ab[illegible] our futures," says Michael H. Fo[illegible] Tenet's president.

Pressed by other [illegible] rectors, Barbakow, [illegible] outside director, assu[illegible] the task of fixing up [illegible] et. He says that whe[illegible] took over, he knew l[illegible] of the extent of the problems. A[illegible] the Justice raids, however, Barba[illegible] cleaned house and insisted on full c[illegible] eration with the investigations.

Over the next several months, [illegible] bakow negotiated settlements top[illegible] $200 million to insurance compa[illegible] And in July, 1994, Tenet pled guilt[illegible] eight criminal counts and paid a [illegible] million settlement to state and fe[illegible] agencies. Just as important, Barba[illegible] spent months restoring Tenet's rep[illegible] tion with doctors and insurers. "[illegible] bakow's getting out and beating [illegible] bushes was key," says Dr. John R. [illegible] teous, a board member of Doctors [illegible] ical Center in Modesto, Calif.

Barbakow realized Tenet neede[illegible] grow to prosper. But neither [illegible] Street nor the medical world tool[illegible] plans seriously. Says Focht: "At [illegible] point, the easiest course would [illegible] been to sell." That was what man[illegible] Wall Street expected. After all, Bar[illegible]



DEALMAKER: *Can he also run a hospital chain?*

CEO BARBAKOW'S PRESCRIPTION FOR TENET

- Paid more than $500 million to settle charges of fraudulent billing and improper care, helping win back doctors' and insurers' confidence
- Sold off noncore businesses such as psychiatric hospitals and rehabilitation clinics
- To fund growth in core U. S. hospital market, sold hospitals in Asia and Australia
- Doubled number of hospitals by acquiring American Medical Holdings in October, 1994, followed by several smaller acquisitions

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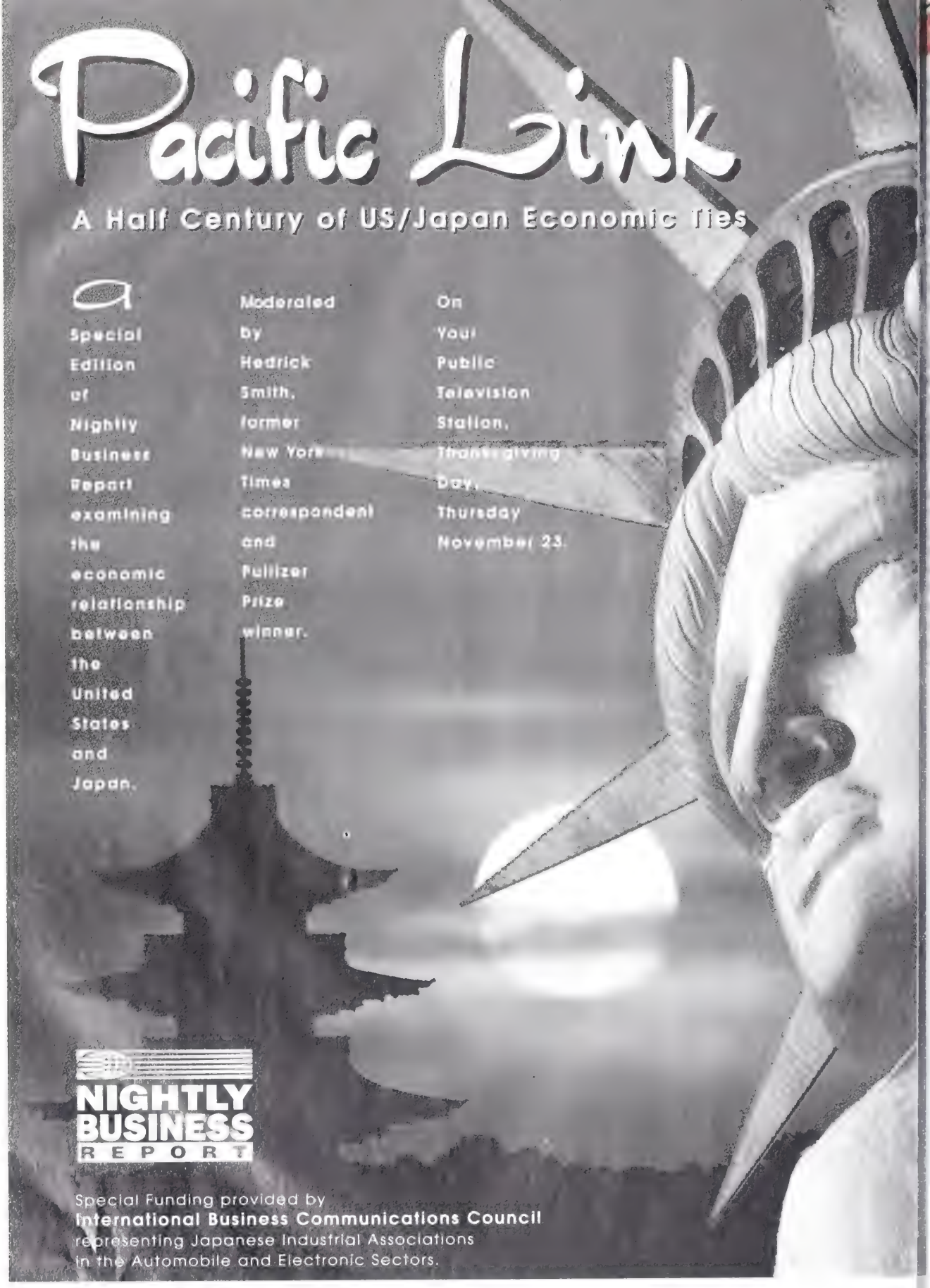

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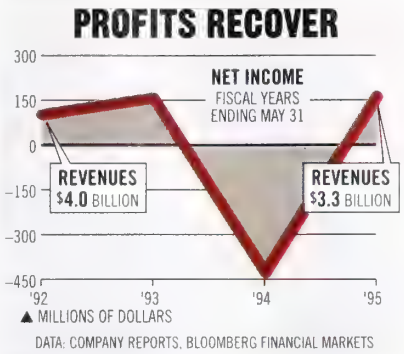
ad netted $20 million in 1990 after estructured MGM/UA and arranged le to Giancarlo Parretti. But Bar- w figured there was a much bigger in the industry consolidation then ding across the country.

rbakow's strategy was to focus on ospital business, while selling the He began by unloading the psychi- business to Charter Medical Corp. 172 million, then got $350 million enet's rehabilitation clinics. Next ld a 75% stake in the company's di- centers for $75.5 million. Tenet aised $420 million selling hospitals stralia and Asia.

HE MAP. The biggest break came the acquisition of American Medical ngs Inc. for $3.3 billion in Octo- 1994. The deal more than doubled t's presence in hospitals—and s in part to AMH's squeaky-clean ation, it put Tenet back on the in- y map. "All of a sudden we were g calls from 35 hospitals around ountry," wanting to link up, recalls akow. The reason: Columbia's sharp cutting had soured many doctors ospital administrators. "We benefit- om the ABC phenomenon," says akow: "Anyone But Columbia."

Barbakow now plans to spend $400 million a year on acquisitions or improvements to Tenet hospitals. But he still has far to go before catching up to Columbia. With financing tight, Tenet has bought only four more hospitals.

The acquisitions have helped Tenet move well beyond its stronghold in



Southern California; Barbakow is now building networks of physicians and hospitals in such markets as South Florida and Louisiana. But many question whether being a distant No. 2 will be enough. "Eventually this company is going to have problems," Richter warns. "The pie is getting smaller."

Such concerns have clearly hit Wall Street: Though Tenet's shares more than doubled, to 18, in the 15 months after he took over, they have been lackluster since. Some analysts also believe that having revived Tenet, Barbakow still aims to sell out eventually to his bigger rival.

For now, Barbakow dismisses such talk, as well as the concerns about size. He insists the key is building strong networks in regional markets. In South Florida, for instance, Tenet enjoys the highest margins in the market, at 10.9%, even though Columbia has nearly twice as many hospitals there. But as pressure to cut costs grows from Medicare cuts and HMOs, those margins won't last.

Tenet has also stumbled badly in other key markets. At its Century West facility in Los Angeles, for instance, local overcapacity and pricing pressure have squeezed reimbursements, severely weakening Tenet's fourth-quarter results. Barbakow brushes off such problems as minor complications. And that they are—at least compared to the nightmare of hundreds of federal agents rummaging through his office.

By Eric Schinez in Santa Barbara, Calif.

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IMMIGRATION

CHEESE IT— THE BOSS!

The INS wants employers to catch illegal workers themselves

To help deter the flow of more than 300,000 illegal entrants into the U.S. each year, Washington is scrambling to find solutions. Stepped-up enforcement at the borders is the biggest job. But increasingly, the feds are also pressing employers into partnership with the U.S. border patrol. Under a 1986 law, employers are required to help weed out undocumented immigrants who slip into the U.S. workplace. The aim of this "interior strategy": Weaken the job magnet that attracts illegals here.

The Immigration & Naturalization Service is revving up employer policing after a decade of relative disuse. The INS wants to add 600 agents next year to help enforce the law, which imposes fines on employers who knowingly hire illegals. Senator Alan K. Simpson (R-Wyo.) proposes raising penalties to as much as $25,000 per illegal worker. Currently, even companies that unwittingly violate the law can be fined for failing to keep immigration records on workers.

CATCH-22. But business owners feel mostly beleaguered in their role as immigration cop. They say they're caught between the government's competing demands—fined if they inadvertently hire illegals bearing counterfeit documents, yet risking a Justice Dept. lawsuit for ethnic discrimination if they question workers with suspicious papers too closely. "The government gets you for trying too hard or not hard enough," gripes Kay P. Norton, general counsel of Monfort Inc. in Greeley, Colo. The beefpacking company was slapped with both violations in 1992. After the INS removed 300 illegals—15% of the workforce—from a Nebraska plant, Monfort started its own immigration inspections at other facilities and was fined $45,576 for asking workers overly intrusive questions.

OUTCRY: [illegible]

Even the feds realize the gambit hasn't worked and want to fix it. "We have been spinning our wheels," admits Paul E. Christensen, an INS assistant director in Omaha, who says jobs left vacant by INS raids are often filled by more illegals. Employers are unable to stanch the flow because they don't know how to detect forged documents, or they don't even try because they enjoy the cheap labor that undocumented workers provide. So the INS is trying to help companies spot counterfeit papers and find legal workers to replace those caught by the feds.

On Oct. 31, the agency kicked off a one-year pilot project in Southern California, where 223 employers can check workers' papers with the INS via computer. Previously, they were left to their own devices to screen up to 29 different valid types of identification. "This takes a huge burden off our backs," says Craig E. Gosselin, general counsel of Orange (Calif.)-based Vans Inc., which makes casual shoes.

The INS is also cutting some slack for businesses that participate in O ation Jobs, a hire-American prog started in the Midwest a year ago, plans to expand nationwide. Under initiative, the INS notifies companie upcoming raids and refers them to s service agencies to find legal work "We're an enforcement agency, we're also like an employment serv says Neil Jacobs, the INS assistant d tor in Dallas who started the progr So far, it has removed 5,500 und mented workers and replaced most legals.

In areas of low unemployment, O ation Jobs may have the side effe increasing wages to attract U.S. w ers for otherwise unappealing jobs the consumer has to pay a half- more per pound of hamburger, worth it because we don't want thes legals here," says the INS's Christe

General Aluminum Corp., w makes windows and doors in Car ton, Tex., for example, raised wages year from $4.50 to $5 an hour aft 1994 INS audit found a third of its w ers undocumented. It has since h 200 inner-city youth, prisoners in r bilitation programs, and refugees the help of the Dallas police, state on officials, and other groups.

Despite all these efforts to imp employer policing, some executives the only way to make business a partner in enforcement is with proof worker identification. Yet a tional system that enters all citi into a Social Security and INS data is encountering heavy opposition those who fear encroachment on liberties. Indeed, U.S. citizens are ly to resent mandatory identity ch Until Congress finds a better businesses will remain reluctant d ties in the federal fight against il immigration.

By Catherine Yang in Washin

Helping Employers On Patrol

The latest efforts by the Immigration & Naturalization Service to bolster enforcement in the workplace:

DOCUMENT CHECKING

Bosses must verify work eligibility documents of all prospective employees. Two hundred California businesses are now getting help from an INS database to sift out fake papers.

WARNINGS ON RAIDS

Businesses don't like surprise raids that leave them in the lurch when the INS hauls off their workers. Some are now coordinating raids with the feds so they can start hiring replacements. Cooperation also helps avoid fines.

HIRING AMERICANS

Trying to solve two social problems in one stroke, the INS now re fers employers to soci service agencies to fin disadvantaged U.S. workers for jobs left b those deported.

DATA: BUSINESS WEEK

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SKIING

HOW PURGATORY IS CLIMBING OUT OF HELL

A small Colorado ski resort lifts itself from near-bankruptcy

Here's how not to be Big Resort on Campus: Jack up students' season lift tickets 40%, to $475, as Colorado's Purgatory Resort did in 1993 when it couldn't make ends meet.

Students at Fort Lewis College in Durango, 25 miles away, were quick to retaliate. Led by Keith M. McCann, vice-president of the student body, they boycotted the resort and bad-mouthed it to anyone who would listen. The hottest T-shirt in the cafeteria read: "Purgatory Sucks."

Oh, what a difference two years make. These days, McCann, the resort's only year-round sales representative, might be expected to say: "Purgatory's doing everything right." But that's not just sales talk. Student ticket sales last winter were 40% ahead of the previous year's, and skier visits, off 1.5% statewide, were up 27%, to 382,000. After nine money-losing winters, Purgatory "is literally being brought back from the brink of bankruptcy," says Gerald F. Groswold, president of rival Winter Park Resort. Revenues rose 20% last year, to $14 million, and operating income hit almost $1 million, compared with a $600,000 loss for the 1993-94 season. Purgatory projects operating income will be up at least 10% this winter.

Although one season doesn't make a turnaround, results so far are encouraging—not just for Purgatory but for other midsize ski areas across the West that are worried about being snowed under by the megaresorts. "Purgatory has found its niche. That's what smaller areas have to do," says John Frew, president of Colorado Ski Country USA, an industry group.

Purgatory's problem was classic: It lost sight of its market. A small area with a good mountain but few amenities and little nightlife, it tried to compete with Vail and Aspen. When that didn't work, Purgatory billed itself as a cheap skiing alternative, attracting tight-fisted skiers for short stays. "That bottom-fishing campaign was absolutely the worst plan for the business, and it was perfectly executed," says Vernon A. Greco, former CEO of Steamboat Ski & Resort Corp., who was hired two years ago as chief executive of Durango Ski Corp., Purgatory's privately held owner.

"The old strategy, bottom-fishing, was absolutely the worst plan...and it was perfectly executed"

SNOWMAKING IN THE SAN JUAN MOUNTAINS

Purgatory's bank threatened to cancel its line of credit. And Continental Airlines Inc., Durango's major carrier, announced it was pulling out, eliminating the resort's most profitable business, since skiers traveling long distances stay longer and spend more.

Instead of backpedaling further, Greco got aggressive. He upped the marketing budget 35%, to $1.3 mil brought in Kendall Stone, a St. Louis specialist in relaunching troubled consumer products, as vice-president marketing; and cut a risky deal with American Airlines.

QUICK SHAVE. These days, Purgatory is pushing high value. For its $39 lift ticket price, one of the lowest in Colorado, skiers have access to as much terrain as Steamboat, short lift lines, and free skiing for kids. The resort is easy to reach, and lodging in Durango is inexpensive. Troubleshooters now deal with complaints immediately, replacing lost tickets or paying to clean jackets smudged on the lift. Greco personally enforces an appearance code for his once-scruffy workforce. In fact, he skis with a battery-powered razor to shave forgetful employees on the spot.

Stone has introduced four-day lift tickets that let skiers trade one or two days for a visit to Mesa Verde National Park, a gambling excursion to the Southern Ute Indian reservation, or a trip on the Durango-Silverton narrow gauge train. And he has arranged marketing tie-ins with consumer products such as Fresca and Molson lob. Room reservations this winter are running 25% ahead of a year ago.

Turning the corner at Purgatory, however, remains a work in progress. Greco had to guarantee revenues of more than $2 million to lure American Airlines to Durango. And even then he persuaded local merchants to underwrite $350,000 of the risk. The deal cost Purgatory about $500,000 last year. But American flew in 12,000 skiers, who accounted for more than 25,000 skier days and spent lavishly. Tax receipts in Durango were up 25% over the previous winter.

The one variable Greco can't control is the weather, but it's already snowing in the San Juan mountains. With a good snowy winter, Purgatory could begin to see a little bit of heaven.

By Sandra Dallas in Purgatory

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1993

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EDITED BY AMY DUNKIN

'COMPLEMENTARY' MEDICINE: IS IT GOOD FOR WHAT AILS YOU?

Lynn Mirabito, a New York filmmaker, suffered from debilitating lower-back pain off and on for a year and a half. When she finally sought help, she chose a sports-medicine doctor who is also a licensed acupuncturist. He didn't cure the problem, but his use of acupuncture and laser treatments offered her welcome relief from the constant pain.

Mirabito's experience is no longer novel. Americans have proven themselves ardent consumers of alternative medicine, and more M.D.s are expanding their arsenals—practicing techniques not usually taught in medical school. In venues as varied as a family doctor's office or the operating room of a cardiac surgeon, physicians are turning to acupuncture, herbs, massage, or meditation to treat common woes.

Some call it alternative medicine, but the term gaining favor these days is complementary medicine, which suggests that these techniques can be used to complement standard practices—and in some cases, fill gaps where conventional treatment is found lacking. For patients drawn to alternative therapies but fearful of entrusting their care to practitioners without medical training, the M.D. degree provides a greater level of comfort. And since the doctor practices both conventional and alternative therapies, "you increase your treatment options," says Dr. Brian Berman, director of the division of complementary medicine at the University of Maryland School of Medicine.

But while many doctors believe alternative medicine shows promise, others are troubled by the lack of good studies to measure the outcome and cost-effectiveness of these practices. And they worry about practitioners' using alternative techniques for serious diseases that could progress if not treated with conventional drugs or therapies. "Physicians have a commitment to take care of patients based on scientific principles," says Dr. Yank Coble Jr., a Jacksonville (Fla.) endocrinolo who is on the board of American Medical Assn. concern is that the treatm offered is truly of value that patients are informe potential risks and benef

There are no figures how many doctors prac complementary medicine. a survey conducted by man found that 70% of fa physicians in the Chesap Bay area expressed inte in receiving training in m ple areas of alternative icine. At least 26 med schools in 13 states, inc ing Harvard, Columbia, Stanford, are offering cou in alternative medicine. idea is not necessarily train students but to edu them about treatm their patients ma using outside their It is knowledge clearly will need 1993, Dr. David enberg, directo the Alterna Medicine Rese Center at Bet rael Hospital Boston, publi a study in *New Engl Journal of M cine* that found or three Americans used a native therapies to treat

HEALTH Such me schools as Harva and Stanford no teach alternativ therapies

A Different Approach to Common Ailments

ITIS & OTHER PAINS

uscle and joint alternative M.D.s try acupuncture, age, or manipula- along with stress tion. Homeopath- parations for uloskeletal in- include arnica, ox, and ruta.

CHILD'S EAR INFECTION

In place of antibiotics, doctors might use herbal remedies such as echinacea or bifidus to strengthen the immune system. Homeopathic medicines include belladonna for pain and chamimilla for infection.

CHRONIC BACK PAIN

Acupuncture and massage therapy are standard. Some providers use osteopathic manipulation, low-level lasers, or electric currents. Most include stress-reduction techniques, such as meditation or biofeedback.

HEADACHES

Treatments include acupuncture and Chinese herbs, as well as biofeedback and other relaxation techniques. Homeopathic medicines include silica, belladonna, and iris bersicolor.

IMMUNE SYSTEM ILLS

Vitamin C and selenium are often used to boost immunity. Herbal remedies include echinacea, peppermint oil, and turmeric. Some practitioners believe ginger has antibiotic-like properties.

DATA: BUSINESS WEEK

oblems such as cancer nritis. Since insurers ay for most alternative nat amounted to an es- l $10.3 billion that con- spent out of pocket. doctors most likely to e complementary med- are those who treat c problems—such as ain, headache, or im- system deficiencies— ften don't respond to tional therapies. Dr. Bower, a family doctor rlottesville, Va., began ng osteopathic manip- and other alternative ques after meeting a with persistent pain hiplash. The man had 0 doctors who all told ey couldn't find any- wrong. "Conventional ne is excellent for hings, but for chronic stress, we don't have answers," Bower says.

GER BUGS. Alternative ne also is gaining a d in areas where con- al medical care is sus- here's a growing fear, ample, that the over- antibiotics will lead to rug-resistant diseases. ears, doctors have l ear infections in chil- ith a regimen of anti- But pediatricians also hat if left untreated, ar infections will clear a week or so anyway. day, some physicians ing homeopathic reme- ch as belladonna, ac- and pulsatilla instead biotics.

basic tenet of comple- y medicine has stud- back it up: the idea that the mind is an important player in determining health. That's especially true with back pain, fatigue, or other nonspecific ills, says Berman.

For Dr. Leonid Gordin, a general practitioner at the Marino Health Center in Cambridge, Mass., the mind-body connection is particularly important. He received his medical training in Russia, where he learned acupuncture and herbal remedies. His approach to a person with back pain is to look at where the pain is physically and then talk about the "emotional and intellectual aspects of the problem." Treatment options include visits with a psychologist, biofeedback, or low-level electric currents that he says block the pain. But a cornerstone of care at the Marino clinic is that patients must actively work to help themselves, including altering diet, quitting smoking, and getting more exercise.

Most doctors would agree that a practitioner who emphasizes stress reduction, healthy eating, and exercise is on the right track. But William Jarvis, president of the National Council Against Health Fraud in Loma Linda, Calif., bridles at physicians who go a step further and promote unproven remedies. That view illustrates the inherent controversy in complementary medicine—how far does one go?

When choosing an alternative M. D., the answer might be to find one who will do a complete diagnostic exam to rule out any serious problem first. Berman suggests asking doctors how extensive their complementary training is and whether they're licensed to practice disciplines such as acupuncture or homeopathy.

At the moment, no definitive studies can prove that complementary medicine is cost-effective—or even provides a better quality of life. For this reason, insurance companies and other third-party payers are very selective about the types of alternative therapies they cover. Bower says that some 80% of his patients are covered for their care, but much of it is within the realm of conventional medicine—massage therapy or osteopathic techniques. More insurers are approving acupuncture claims, too. But patients of Gordin—who shuns all conventional medicines except antibiotics—receive no compensation.

TESTING, TESTING. Eisenberg's Alternative Medicine Research Center at Beth Israel is at the forefront of the quest for answers. The National Institutes of Health just awarded it $900,000 to come up with scientific studies to determine the safety, efficacy, and cost-effectiveness of alternative therapies. Nine other academic groups—including Berman's—also got grants to conduct research on alternative medicine's role in such areas as pain, stroke, cancer, and aging. Eisenberg says hundreds of millions more in funding will be needed to conduct large-scale clinical studies. He hopes managed-care companies or large employers will foot the bill.

For now, it's up to consumers to make educated choices about alternative care. Says Coble: "If it sounds too good to be true, it probably is." But if a physician can successfully use an alternative technique where a conventional method fails, then the patient clearly has something to gain.

Naomi Freundlich

What to Ask An Alternative M.D.

- What kind of training do you have in alternative practices? Have you completed a proven course of study in acupuncture, massage, homeopathy, or whatever—and are you licensed to practice these techniques?
- Will you do a physical exam to rule out standard treatment options before resorting to complementary medicine?
- Are you comfortable using both conventional and alternative medications?
- Can you supply any data to show that a particular alternative treatment is effective for my condition? How does the treatment work? How long will I need it?
- Have your patients generally been successful in getting health insurers to pay for your therapies?

DATA: BUSINESS WEEK

LIFE INSURANCE: BOGUS BAIT TO MAKE YOU SWITCH

After a year of scandals involving some of the biggest names in life insurance, consumers finally are waking up to churning. This abusive sales practice occurs when agents dupe customers into replacing perfectly good cash-value policies. While agents reap big commissions, switching policies costs consumers more than $6 billion annually, the Consumer Federation of America estimates.

So far, most of the advice for policyholders boils down to a simple "just say no" to replacement. If an agent or broker tries to persuade you to cash in your variable-, whole-, or universal-life policy in order to buy a new one, run the other way. Once a policy is purchased, it's generally best to hold on to it because the upfront costs are so steep—the first year's entire investment can go to fees and commissions. But lost in the current antireplacement fervor are the rare occasions when policy replacement actually is the best course.

BOND BOMB. When does it make sense? If you were an overweight chain-smoking heart patient when you bought your policy and you're running marathons today, replacement might save you money in the long run. That's because health is a major factor in determining premium rates. Certain estate-planning gambits, such as shifting ownership of a policy to an irrevocable trust, could legitimately involve replacement. In such cases, it could reduce tax obligations enough to compensate for the upfront costs of a new policy. Financial woes at the company backing a policy also could be a reason. Customers of Executive Life, the industry's No. 1 junk-bond victim, for instance, have been enduring a drawn-out process to recover the funds they're owed.

SMART MONEY

Navigating replacement waters means swimming with the sharks. It's notoriously difficult for nonprofessionals to analyze and compare policies. And considering the recent churning allegations against Metropolitan Life, Prudential, and other insurance companies, it's hard to know who to trust for advice. "Some of the things being done are blatant thievery. Clients need to become educated," says Richard Sabo, a former MetLife agent in Pennsylvania whose 1993 whistleblower complaints on churning and related fraud led to a state investigation, resulting in a $1.5 million fine plus restoration of old policies.

The life-insurance industry, stung by adverse publicity, is beginning its own education campaign. MetLife and Prudential have sent anti-churning notices to millions of policyholders, conducted internal reviews, and laid down the law to agents. The American Society of Chartered Life Underwriters & Chartered Financial Consultants is offering one of the most ambitious new tools. The Bryn Mawr (Pa.) trade group has developed a six-page worksheet aimed at identifying pitfalls in replacement proposals. The worksheet is supposed to be used by agents, who wouldn't necessarily share the results with their clients. But a savvy consumer can uncover trouble by insisting on its use, says Millard Grauer, past president of the society. Predatory agents confronted with the worksheet "would have a lot more trouble making their cases," says Gr an Equitable Life agent has replaced policies "j few times" over a 40- career.

With the worksheet, is available free by ca 800 392-6900, agents by listing possible adva es of a new policy, suc higher death benefits, premiums, or stronger i finances. A series of tions smokes out some biggest risks of replacer Since issuers may co claims made in the years of new policies, f stance, consumers who render their old policie lose protection. And be the growth in cash-valu surance is tax-deferred may owe tax you replace policy.

TOUGH NUT. worksheet c grandfathere rules that ap policies purch in the 1970s 1980s. Still, worksheet is long-winded too complic for routine says Sabo. A doubts it cou ter every di est agent.

For extra tection, consu should seek ond opinion ever they are sidering repl their life insu The Cons Federation of $40 policy-an service, ava by calling 202 387-61 those rare cases whe placement is warranted ple should investigate panies that sell cash- policies at a low upfron directly to the public, as Ameritas (800 552-5 and USAA (800 531-8000 placement through companies still carrie usual downsides, but at a commission rip-off among them. *Greg*

Before Replacing a Cash-Value Policy

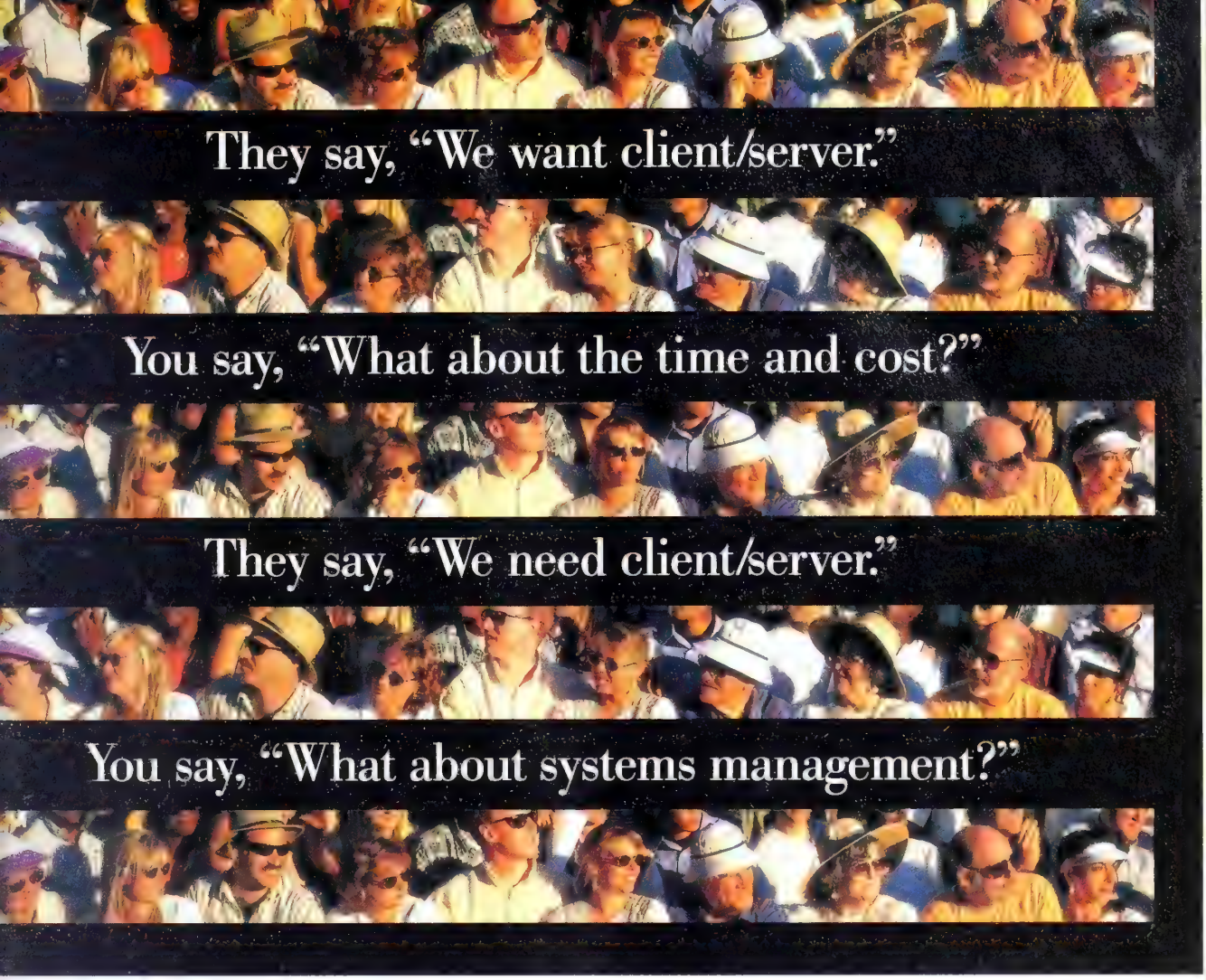
BE WARY: Replacing a variable-, whole-, or universal-life insurance policy is usually bad for you but good for your agent.

STUDY THE ILLUSTRATIONS: Agents sell cash-value policies with illustrations—documents charting projected investment growth. Be sure to review the projections on your existing policies as well as those for proposed new policies.

INSIST ON FULL DISCLOSURE: Compare the first-year cash value of the new policy with the cash value of the existing one. It often takes years for a policy to break even after all the initial commissions and fees.

SEEK A SECOND OPINION: And before dropping your present policy, give the carrier a chance to explain any advantages of keeping it.

DATA BUSINESS WEEK



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DREAM HOUSE OR TOXIC NIGHTMARE?

Andrew Paul and his family will never forget Aug. 2, 1993. That's the day the Environmental Protection Agency told them the yard of their house in Stratford, Conn., contained asbestos-laced soil that would have to be cleaned up. Paul was relocating to Virginia and already had a buyer lined up. But the sale was canceled, and Paul carried the house for a year until EPA paid to dig up his yard. Worse, EPA's contractor ruined the Pauls' exquisite landscaping. "We're still pretty bitter," says Paul, who sold the house last fall for $35,000 less than it was valued a year earlier.

Paul is among a small but growing number of property owners who have lost money because hazardous materials have been found on or near their property. At least 60 of the 1,300 high-priority U.S. Superfund sites are in residential areas, estimates the EPA. Thousands of additional contamination sites known to state authorities and private owners also exist, some affecting homes.

Luckily, new tools have been developed that can alert you to the presence of toxic materials or polluting businesses in your area. Employing them is part of the environmental due diligence you should complete for any property you buy or inherit.

TAINTED GIFT. An extra level of vigilance is required for business properties. An environmental review by a qualified engineer is now *de rigueur* for all but the smallest ones. Government officials wield broad power to determine financial responsibility, and seemingly innocent people often get caught in the liability web. For example, Connecticut is trying to force Susan Starr to pay the cleanup bill for removing cyanide that had been dumped on 44 acres of undeveloped land in Enfield she says she inherited from her builder husband in 1987. Starr had no knowledge of the cyanide, says attorney Kathleen Eldergill, or she could have refused to take title to the property.

Purchases of single-family houses present a different challenge. They're much less likely to have pollution problems, so keeping your costs down while assessing risk is important. Always use a qualified home inspector, and hire experts to check for well-water contamination and problems with buried oil tanks. Water tests range from $20 for a do-it-yourself kit to $200 for a full laboratory analysis, and tank testing starts at about $300—in addition to the average $350 basic home inspection. You should also do some detective work on your own. Take a good look around for potentially troublesome neighbors, such as dry cleaners or gas stations. Both are known for dumping wastes. Factories and landfills can also be sources of trouble.

Help is available. Since the late 1980s, vendors have been selling information culled from government databases on the location and status of hazardous materials. Three national companies now sell data in packages ran from summary to detaile formation. Researchers for current information a pollution and hazar waste nearest to the pr ty you are considering, its location, and provide data on the prior use o known toxic sites.

FINE PRINT. Products prices vary. You can with a $15 to $20 single- summary and buy a ma an additional $30 or s any hazards turn up tha close enough to raise con you can buy a more det account. Starting at $65 can get a slim report co ing data on the nature o hazardous material and lution and the address name of the business w it occurs. A thorough as ment generally puts the at $150 or higher.

The data services ha way to go before thei ports can be considered reading. Ask for a sa printed stu familiarize y self with the format an breviations such as (Leaking Underground age Tank). Also watch differences in map an dress precision among ports. They are espec important if you are t to decide if those PCBS were spilled a few b away are going to mi to your yard.

Your contact with o the national vendors w through a representative may or may not be far with where you live. A s er company that ope only in one state or r may have more int knowledge of your neig hood. Call local real e attorneys and enginee find out if a data com exists in your area.

One day, environm evaluations may becom routine as home inspec But even now, the exp could be worth it ju know you're not about t a house on the next Canal. *Richard Ko*

REAL ESTATE

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ENVIRONMENTAL DATA RESOURCES Southport, Conn., 800 352-0050	$95 Transaction Screen lists locations of hazardous materials and pollution near a property; a more elaborate version costs $195
ENVIRONMENTAL RISK INFORMATION & IMAGING SERVICES Herndon, Va., 800 989-0402	ERIIScan report for $75 pinpoints nearby hazards; an additional $65 buys information on prior use of properties; brief summary of hazards costs only $15 or $20
TOXICS TARGETING Ithaca, N.Y., 607 273-3388; 800 2TO-XICS in N.Y.	Provides data on lower New York State. For $150, Computerized Environmental Report has detailed maps and toxic-site profiles
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DUCTION AND LEADING INDEXES

nge from last week 0.2%
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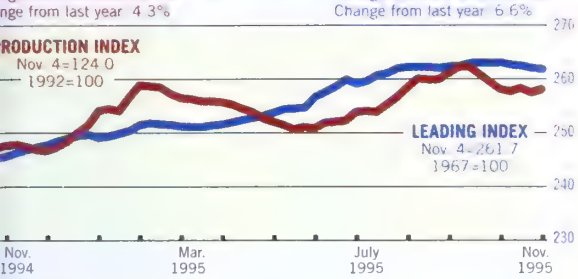

xes are 4-week moving averages

roduction index rebounded in the week ended Nov. 4. Before calculation four-week moving average, the index also rose, to 124.5, from 123.3. nceback in the seasonally adjusted output levels of cars and trucks led eek's advance.

ading index declined slightly in the latest week. The unaveraged index, er, edged up to 261.9, from 260.8 in the previous week, led by lower ields and stronger growth in real estate loans.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/11) thous. of net tons	1,895	1,863#	0.3
AUTOS (11/11) units	129,358	133,345r#	-10.4
TRUCKS (11/11) units	116,949	123,249r#	-5.6
ELECTRIC POWER (11/11) millions of kilowatt-hrs.	59,890	57,682#	6.6
CRUDE-OIL REFINING (11/11) thous. of bbl./day	13,451	13,804#	-1.0
COAL (11/4) thous. of net tons	19,848#	19,161	-1.3
PAPERBOARD (11/4) thous. of tons	913.7#	873.0r	2.1
PAPER (11/4) thous. of tons	839.0#	829.0r	-0.4
LUMBER (11/4) millions of ft.	436.2#	453.8	-11.3
RAIL FREIGHT (11/4) billions of ton-miles	25.6#	25.4	2.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (11/10) S&P 500	590.49	585.85	27.2
ORATE BOND YIELD, Aaa (11/10)	7.04%	7.05%	-19.5
STRIAL MATERIALS PRICES (11/10)	111.6	110.8	NA*
NESS FAILURES (11/3)	NA	302	NA
ESTATE LOANS (11/1) billions	$501.6	$499.7	10.7
Y SUPPLY, M2 (10/30) billions	$3,721.8	$3,719.2r	4.3
AL CLAIMS, UNEMPLOYMENT (10/28) thous.	366	358r	13.7

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/15) $/troy oz.	385.300	384.800	-0.1
STEEL SCRAP (11/14) #1 heavy, $/ton	134.50	134.50	-2.9
COPPER (11/11) ¢/lb.	140.8	135.0	9.5
ALUMINUM (11/11) ¢/lb	78.0	77.8	-13.3
COTTON (11/11) strict low middling 1-1/16 in., ¢/lb.	83.03	84.30	17.2
OIL (11/14) $/bbl.	17.90	17.60	1.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (11/14)	5.71%	5.65%	5.22%
IERCIAL PAPER (11/14) 3-month	5.74	5.75	5.82
IFICATES OF DEPOSIT (11/15) 3-month	5.74	5.74	5.80
MORTGAGE (11/10) 30-year	7.63	7.69	9.33
STABLE MORTGAGE (11/10) one-year	5.69	5.78	6.33
E (11/15)	8.75	8.75	7.96

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/15)	101.02	102.23	98.31
GERMAN MARK (11/15)	1.40	1.41	1.56
BRITISH POUND (11/15)	1.56	1.58	1.57
FRENCH FRANC (11/15)	4.84	4.88	5.34
ITALIAN LIRA (11/15)	1590.8	1588.5	1593.7
CANADIAN DOLLAR (11/15)	1.36	1.35	1.37
MEXICAN PESO (11/15)	8.000	7.625	3.442

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

NATIONAL TRADE

ay, Nov. 21, 8:30 a.m. ▶ The U.S. deficit for goods and services is ed to have widened to $9.8 billion in nber, after having narrowed sharply in to $8.8 billion, from $11.2 billion . That's the median projection of nists surveyed by MMS International, of The McGraw-Hill Companies. s are expected to have edged up in nber, to $65.5 billion, after a large se in August. Export growth has up, partly because the drag from weakness in the Mexican and Cana- conomies is easing up. September s likely rose faster than exports, hit- 75 billion, partly reflecting a rebound in oil imports. If the MMS projection is on the mark, trade was a neutral factor in third-quarter economic growth.

FEDERAL BUDGET

Wednesday, Nov. 22, 2 p.m. ▶ The federal budget in October is expected to have begun the 1996 fiscal year by posting a deficit of $29 billion. That would be slightly below last October's red ink of $31.3 billion. The fiscal 1995 deficit ended up at $163.8 billion, down from $203.1 billion in 1994. The monthly budget data for the coming year should more closely follow last year's numbers, now that deficit improvement due to the upswing in the business cycle is beginning to wane.

UNEMPLOYMENT CLAIMS

Friday, Nov. 24, 8:30 a.m. ▶ New filings for unemployment insurance for the week ended Nov. 18 probably stood close to their recent four-week average of about 365,000. The MMS survey had expected claims for the week of Nov. 11 to dip slightly to 370,000, from 375,000 the week before. The four-week average has risen to its highest level since the summer. However, the summer increase in new filings reflected temporary shutdowns in the auto industry, so the recent rise in claim activity suggests increasing slack in the labor markets.

NOTE: *Due to the government shutdown, release dates are all tentative.*

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What's the political fallout from the budget standoff and the government shutdown? Score the winners and losers, looking ahead to '96, in a discussion led by BW's Washington bureau chief, Lee Walczak. **Nov. 19**
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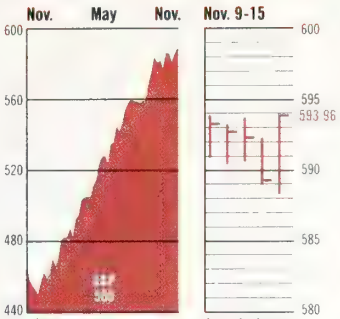
vestment Figures of the Week

NTARY

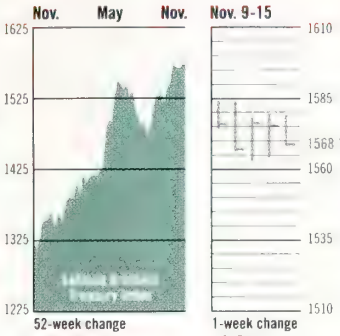
et battle may be giving
s and government workers
nvestors love it. On Nov.
ow Jones industrial aver-
ed 51 points and easily
4900 barrier. The broader
& Poor's 500-stock index
ew high as well. In all,
has gained more than 200
just three weeks. The
ket wasn't quite so ebul-
ce the U.S. Treasury is
ff default only by juggling
. Still, the week's rate rise
r.

STOCKS



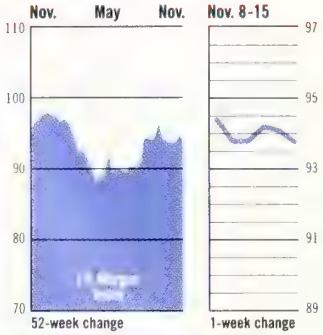
52-week change +27.6% | 1-week change +0.4%

BONDS



52-week change +19.1% | 1-week change −0.8%

THE DOLLAR



52-week change −2.2% | 1-week change −0.6%

KET ANALYSIS

OCKS	Latest	% change Week	52-week
ES INDUSTRIALS	4922.8	1.4	28.0
COMPANIES (S&P MidCap Index)	213.3	−0.4	23.3
MPANIES (Russell 2000)	301.5	−0.3	20.3
PANIES (Russell 3000)	339.5	0.2	27.2
N STOCKS	**Latest**	**% change (local currency) Week**	**52-week**
FINANCIAL TIMES 100)	3571.4	1.0	13.5
IKKEI INDEX)	17,682.7	−1.0	−8.4
(TSE COMPOSITE)	4560.5	−0.3	9.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.55%	5.52%	5.51%
30-YEAR TREASURY BOND YIELD	6.29%	6.25%	8.09%
S&P 500 DIVIDEND YIELD	2.27%	2.29%	2.74%
S&P 500 PRICE/EARNINGS RATIO	16.7	16.6	17.3
TECHNICAL INDICATORS	**Latest**	**Week ago**	**Reading**
S&P 500 200-day moving average	539.8	536.8	Positive
Stocks above 200-day moving average	63.0%	63.0%	Neutral
Speculative sentiment: Put/call ratio	0.64	0.58r	Neutral
Insider sentiment: Vickers sell/buy ratio	2.25	2.55	Neutral

BLOOMBERG FINANCIAL MARKETS

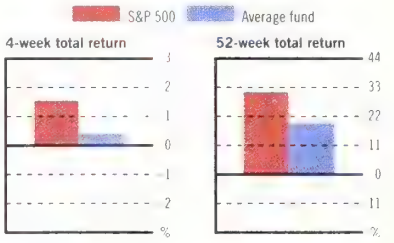
STRY GROUPS

NTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
OGRAPHY/IMAGING	17.9	41.7	EASTMAN KODAK	19.2	43.3	68¼
	16.7	3.9	UNITED HEALTHCARE	19.2	18.6	58⅛
FACTURED HOUSING	12.0	8.7	FLEETWOOD ENTERPRISES	12.0	12.0	22¼
UTER SOFTWARE	11.1	44.2	NOVELL	24.4	1.4	18½
KING	10.8	−4.0	ROADWAY SERVICES	16.5	−6.4	51¼
NTH LAGGARDS	**% change 1-month**	**12-month**	**Weakest stock in group**	**% change 1-month**	**12-month**	**Price**
ONAL LOANS	−11.5	49.6	HOUSEHOLD INTERNATIONAL	−12.6	61.5	58¾
INE TOOLS	−11.3	−1.6	CINCINNATI MILACRON	−14.6	−3.1	23½
R CONTAINERS	−8.9	−0.3	STONE CONTAINER	−12.5	5.0	15¾
Y CENTER BANKS	−8.9	39.6	CHASE MANHATTAN	−12.6	58.3	57⅜
TMENT BANKING/BROKERAGE	−7.9	36.1	MORGAN STANLEY	−11.8	38.0	85¾

UAL FUNDS

MORNINGSTAR INC

S ek total return	%	LAGGARDS Four-week total return	%
I BARNEY SPECIAL EQUITIES B	16.3	WRIGHT-EQUIFUND MEXICO	−16.1
TT SMALLER COMPANIES B	13.2	PIONEER INDIA B	−11.6
NION INSIGHT GROWTH	12.9	G.T. LATIN AMERICA GROWTH B	−11.5
total return	%	52-week total return	%
ITY SELECT ELECTRONICS	87.8	WRIGHT-EQUIFUND MEXICO	−61.9
TT SMALLER COMPANIES A	84.9	TCW/DW LATIN AMERICAN GROWTH	−44.9
R CAPITAL APPRECIATION	75.3	MERRILL LYNCH LATIN AMERICA B	−43.6



ATIVE PORTFOLIOS

DRI/McGRAW HILL

mounts represent the
value of $10,000
l one year ago
portfolio
tages indicate
/ total returns

Treasury bonds	U.S. stocks	Foreign stocks	Money market fund	Gold
$13,316	$12,988	$11,319	$10,557	$10,052
+0.10%	+0.51%	−0.21%	+0.12%	+0.27%

on this page are as of market close Wednesday, Nov. 15, 1995, unless otherwise in-
Industry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 14. Mutual fund returns are as of Nov. 10. Relative portfolios are valued as of Nov. 14. A more detailed explanation of this page is available on request. r=revised

STOP GRANDSTANDING AND PASS THE BUDGET

So far, Washington's budget war resembles nothing more than bad comic opera, with the highlight of the second act coming with the closing of the federal government on Nov. 14. But if both parties were to push the struggle into the 1996 election year, as they threaten, the battle between President Clinton and the GOP could turn from political farce to economic tragedy.

On strictly financial grounds, the two sides are near enough for compromise on a budget that balances seven years out. But on political grounds, there is war. The Republicans have stuffed their temporary-spending and debt-limit-extension bills with extraneous—but politically charged—measures. There is, for example, a death-row rider that limits the ability of convicts to appeal their sentences. Not much to do with budgets and deficits there. Worse, the Republicans haven't even delivered the seven-year balanced-budget plan they promised: 9 of 13 spending bills and the GOP's enormous tax-cut package are hanging fire.

But Clinton is playing the demagogue, too. He's shouting to the elderly about opposing a $7.40-a-month hike in Medicare premiums. It's a masterful performance—but one that will haunt him. The President cut Medicare costs in 1993, proposed cutting them in 1994, and knows that further Medicare savings will be crucial in any budget deal. Those savings now will be harder to sell, thanks to White House rhetoric.

Is there any reason for Americans to care about this political exhibitionism? Yes, if it drags on much longer. Washington hard-liners, from Clinton adviser James Carville to some House GOP freshmen, are hinting that they would be happy to see the budget tussle drag into 1996 and become part of the Presidential election campaign. This would be a terrible setback for the economy. Long-term interest rates are down sharply—on the expectation that Washington will finally end its budget deficits. Postponing the budget deal into next year would shake investors' confidence.

The major players—President Clinton, Speaker Gingrich, Senator Dole—profess to want to balance the budget. They are not far from a deal. It's time for the politicos to start negotiating in earnest. Stop acting, and get off the stage.

CREATING WEALTH AGAIN IN AMERICA

We've been waiting so long for real wages to move up, we almost missed it: After four years into an economic expansion, a productivity-led boost in real wages occurred in the third quarter. If it continues for the rest of the '90s, living standards for most working Americans will soon be rising.

Here's what's happening. First, productivity is soaring. Last quarter, nonfarm productivity rose 3.4% from a yea lier. That's big—following a 1.9% jump in 1994. Afte the average yearly rise in the '70s and '80s was only 1%. higher productivity, companies can reap fat profits wit er prices. In fact, corporations are falling over themsel cut prices. Retail price tags in the third quarter fell by from year-ago levels. There is now real deflation going computers, apparel, household appliances, medical equip and gasoline. This means that even though money wages dollar amount of wages—aren't going up much, wha paycheck buys is growing. Ergo, real wages are movin

Those productivity-generated corporate profits are digious. Average third-quarter operating earnings for panies in the Standard & Poor's 500-stock index rose 2 hit $40 a share on a seasonally adjusted basis. Comp flush with profits, are beginning to share the wealth employees.

We hope this continues for the rest of the decade third quarter had high growth, super productivity, low tion, great profits, as well as rising real wages. These a elements of real prosperity in America.

A SENSIBLE CENTER FOR THE ENVIRONMEN

To a hunter sighting mallards in the gray Virginia ing or to an angler fly-fishing in the pristine strea Montana or Oregon, the congressional sneak attack on t vironment is nothing short of a catastrophe. By attachin ers to agency appropriation bills that choke laws gove clean air, clean water, and the protection of public land tremists hope to use the budget process to ram th new rules that could never survive public debate. A R lican Party tradition, begun under Teddy Roosevelt, o tecting the land is being trashed. It is shameful.

For those in Congress who see the environmentalist liberal cabal, we refer them to Ducks Unlimited and conservative hunting and fishing organizations. It is *F Stream*, not *The Nation*, leading the opposition. And it moderates, along with Democrats, who blocked anti-en mental legislation, leading GOP extremists to attach the ers. These would ban implementing water-quality stan for the Great Lakes, curb wetlands protection, and in logging in the West. One provision opens the Arctic N al Wildlife Refuge to oil drilling (with 90% of the revenu ing to Alaskans who pay no sales or income taxes). A provides for the sale of national forest land for ski res

There is still time for Republicans to reclaim their en mental heritage. Polls show overwhelming support clean environment. Mainstream private organizations, s the Nature Conservancy, work with local governme protecting the land for everyone's use. Others, such a trust, combine grassroots capitalism with watershed p tion. There is a sensible center for environmental p tion. Congress must find it again.

ESS WEEK
December 4

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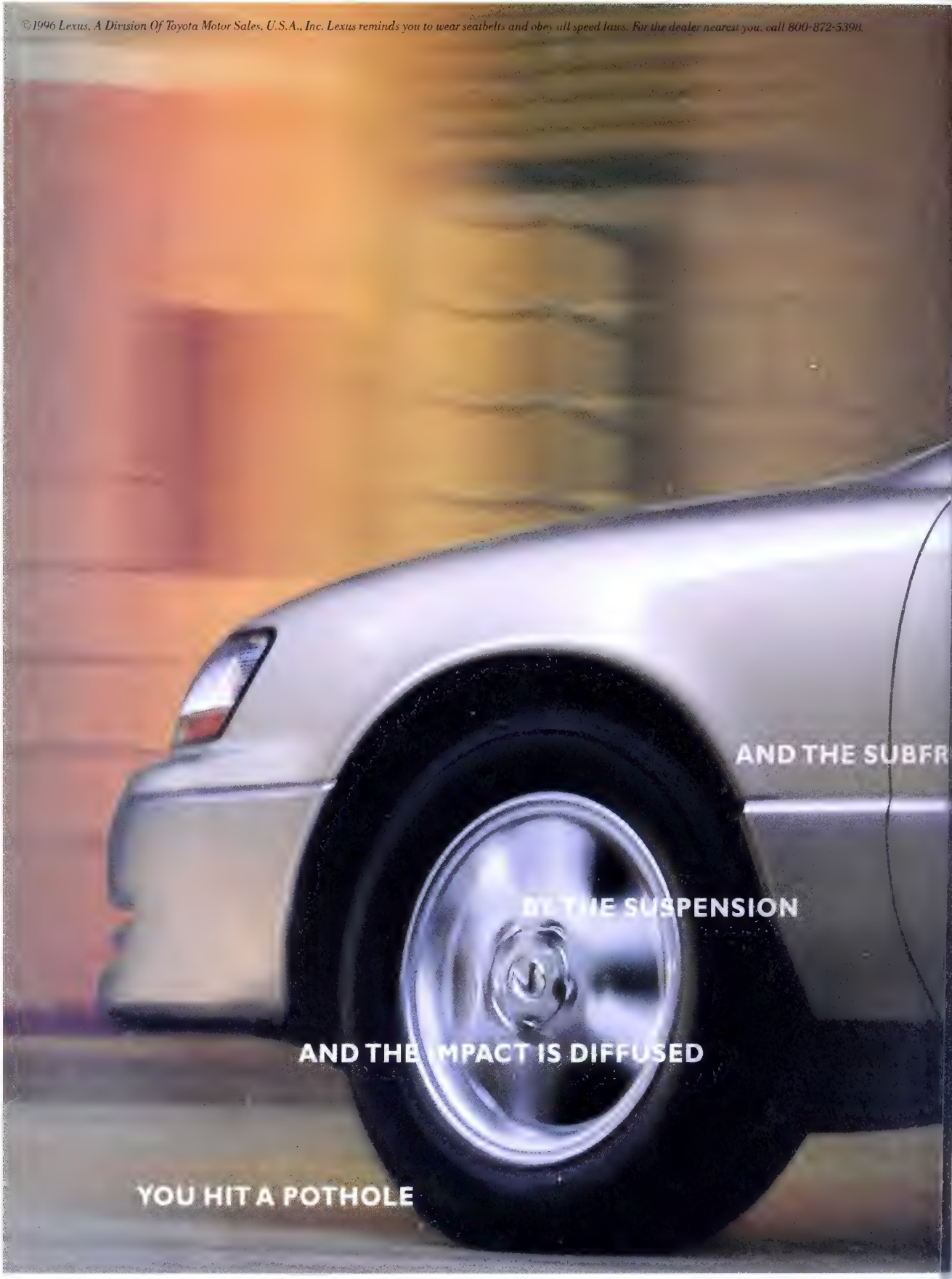

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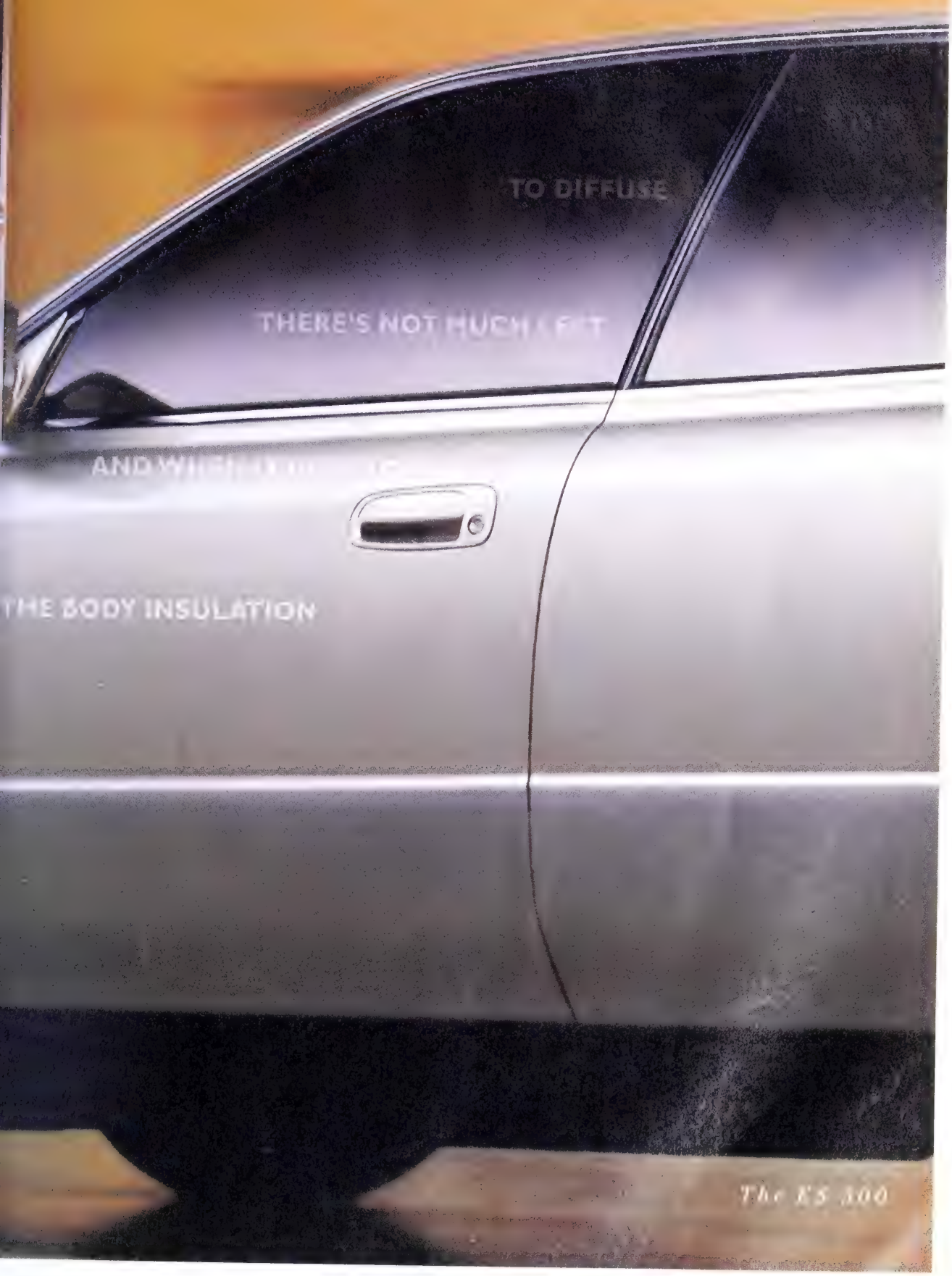

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BusinessWeek
DECEMBER 4, 1995

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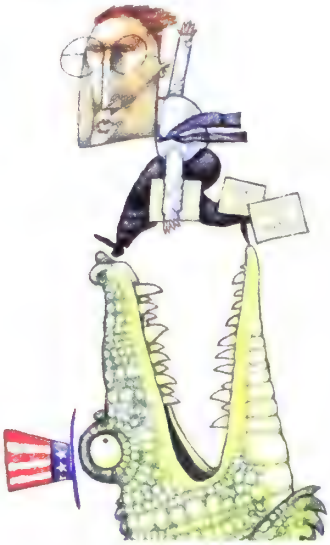
The impasse clears, and the serious give-and-take begins page 32

AX THAT TAX

Moves that you can make now—whatever Congress decides page 126



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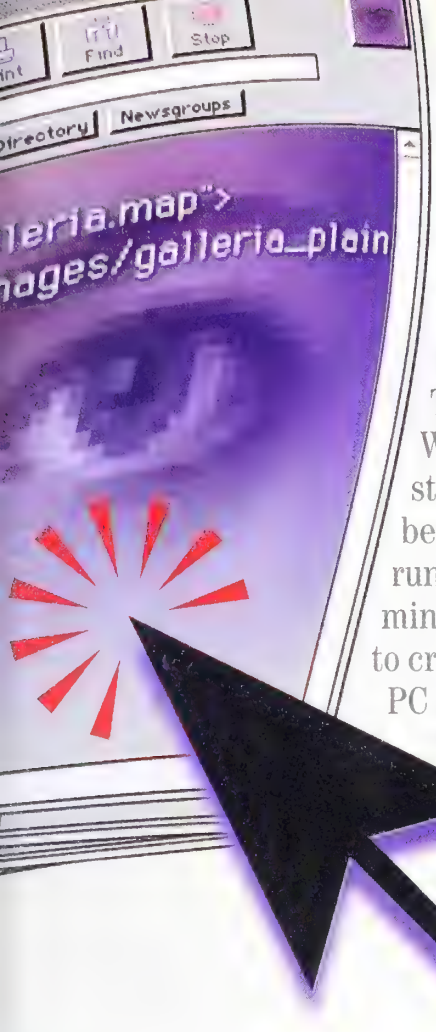

COVER STORY

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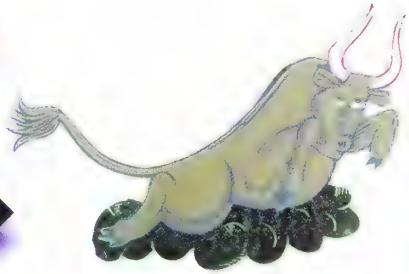

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Customer lib, courtesy of the Internet
Don't sell the economy short

Up Front

EDITED BY IRA SAGER, WITH PAUL ENG

TALK SHOW "Maybe we can send him some of those litt M&Ms with the Presidential seal on them."

—White House Press Secretary Michael McCurry, referring to Newt Gingrich's pique over his treatment on Air Force One.

SLUGFESTS

ZAPPING LASER PATENTS

TRUSTBUSTERS AT THE Federal Trade Commission have set their sights on two companies at the leading edge of surgical procedures for myopia. Visx of Santa Clara, Calif., and Summit Technology of Waltham, Mass., received subpoenas on Oct. 13 seeking information concerning a novel partnership that rivals say will stifle competition in this hot new market.

Visx and Summit have pooled their patents for a new surgical technique called photorefractive keratectomy, which corrects vision by removing corneal tissue with lasers. Medical experts say this advancement over the currently popular radial keratotomy, which requires a scalpel to do the job, could involve a half million patients in the U.S. a year. At $2,000 a pop, that's big business.

The problem is a radical pricing plan set up by Pillar Point Partners, a joint venture between Visx and Summit. Created in 1992 to resolve the companies' patent disputes, Pillar would require licensees of its surgical methods to pay a $250 royalty per procedure. Since Summit got the Food & Drug Administrati O.K. on Oct. 20 to use laser, it is poised to r those royalties. Visx' appr is still pending.

Competitors charge t the scheme is an antitrust olation. "I've always thou it sounded like price-fixi says Dr. Frank O'Donn chairman of LaserSig which is based in St. Lo Summit and Visx say t have obeyed the law. N it's up to the FTC, which no comment, to clear whether Pillar's vision is a competitive. *Catherine Yo*

I-WAY PATROL

IS MA BELL SOAKING SENIORS?

ROTARY CLUB: *Low-tech leasing*

IS AT&T EXPLOITING THE elderly? The United Seniors Health Cooperative and other consumer groups charge that the $75 billion telecommunications giant is taking advantage of senior citizens by not clearly pointing out that it's cheaper to own a telephone than to rent one. The consumer groups are up in arms over the fact that 5.5 million customers shell out an average of $63 a year to lease a phone that could cost as little as $25 to buy. They argue that the elderly are unaware of the alternatives or too set in their ways to change. AT&T says it clearly discloses rental costs and options.

In fact, it seems that in the race to the Information Superhighway, people of all ages are content to putt along on the back roads. AT&T says only 30% of its renters are over 65. (Almost half the renters are still paying for rotary phones.) AT&T won't say how much it makes, but analysts estimate the company has raked in $3 billion since 1984, when consumers were first offered the chance to buy their phones.

What's the appeal of renting? Says longtime lessee Peter Szekely, 43, of Washington D.C.: "It was really easy to lease. I just had to keep doing what I've been doing." Szekely admits it would be hard to plead ignorance—AT&T mails out bills for leased phones separately from other phone bills and includes information on how to buy a phone with each bill. AT&T points out that about half of the company's lessees also own at least one phone, and in 1994 some 1 million of them exchanged a leased phone for another leased model. *Catherine Arnst*

THE LIST SANTA SECRETS

Santa Claus is more than an institution: He's big business. There are thousands of Santas working in shopping malls and other venues. For their trouble, these Kris Kringles earn anywhere from $6 to $37 an hour, with those sporting genuine white beards (more convincing and resistant to young hands) commanding the most money. In some spots, Santa is high-tech: His helper relays info from the line to his ear receiver, so he can greet a youngster familiarly and create Yuletide magic.

KRINGLE: *Jolly*

SANTA CLAUS AND SHOPPING MALLS

Based on survey of 100 regional shopping malls

AVERAGE NUMBER OF SANTAS PER MALL	3.73
TOTAL MALL SANTAS	7,460
AVERAGE NUMBER OF KIDS VISITING SANTA PER MALL	12,656
TOTAL CHILDREN WHO VISIT SANTA IN ALL U.S. MALLS	25.3 MILLION
SHARE OF KIDS AGE 1 TO 10 VISITING A MALL SANTA	65%

DATA INTERNATIONAL COUNCIL OF SHOPPING CENTERS

UNREAL ESTATE

THE RTC'S LAST FIRE SALE

THE RESOLUTION TRU Corp. is hanging up its ga For three days in Decem the 6-year-old agency will holding a "going out of b ness" sale, auctioning about $700 million in loan

Interest in the last—a largest—RTC auction is h Over 250 bidders plan show up at the convention center in downtown Kansas City. On the block are loans on single-fa ily homes in California a New Jersey, on a commer office building in New Yo and on a number of churc in Florida, Texas, and ot states. The largest single set up for sale: a $19 mil loan on a golf and coun club in Hilton Head, S.C.

The auction may mark RTC's swan song, but cleanup from the savings loan debacle goes on. though the agency has ready sold off more than $ billion in assets—recover about 87¢ on the dolla about $8 billion in assets main. Those hard-to-sell sets will be transferred to Federal Deposit Insura Corp. *Amy Bar*

FUNNY
THING
ABOUT
THE
FUTURE.

Up Front

AFTERLIVES

WORDPERFECT'S BAD SPELL

SHTON: *No n of Novell*

ALAN ASHTON, the co-founder of WordPerfect, was made megarich by selling his creation to Novell last year. Even though he sits on the board, Ashton believes the computer networking giant has badly handled its $855 million acquisition. Recently, Novell announced it wanted to unload WordPerfect.

Ashton, who as a Brigham Young computer professor founded WordPerfect in 1979, blames Novell for axing the original sales force who knew best how to sell the word processing software. WordPerfect has suffered against Microsoft, which is outpacing it in bundled office software. Novell officials counter that WordPerfect was slow to bring out a Windows version of its software.

With more than $400 million from the sale, Ashton, 53, isn't interested in buying back his company. Instead, he is giving $50 million to fund an environmentally minded nonprofit project in Utah called Thanksgiving Point. The 400-acre greenbelt project along the Jordan River between Provo and Salt Lake City due to open next year. It itially will contain botani gardens, a public golf cou a farmer's market, and an imal farm. *Sandra Dal*

DRAWN & QUARTERED

BANK NOTES

DOO-WAH CASH: MTV MEETS ATM

A TRIP TO THE AUTOMATIC teller machine is a humdrum activity. But a big bank, trying to boost ATM usage, is making it entertaining.

In Seattle's Key Arena, barker Maxine Pixel beckons sports fans from large-screen TVs to visit KeyCorp ATMs. Played by a stand-up comic, she tells jokes about lattes and Bill Gates. Below her are tomato-red cash machines and, at kid's level, large yellow and white buttons to play music. Next to this is a bank-sponsored video arcade. At the Rock 'N' Roll Museum in KeyCorp's hometown of Cleveland, the ATMs are called Rock 'N' Dough and blast out tunes. Similar fun elements are planned for malls.

ROCK 'N' DOUGH: *Tunes and tens*

Banks everywhere are trying to cut costs by promoting the ATM habit. No. 11 Keycorp (assets: $68 billion), whose area stretches from Alaska to Maine, now conducts 30% of consumer transactions via ATM, vs. 19% for the entire banking industry. Its goal is to double ATM usage by 1998. Still, it would lag behind other big banks, such as Bank of America. *Seanna Browder*

RANK AND FILE

BUY A GIRL SCOUT COOKIE, GET A UNION?

COULD GIRL SCOUT COOKIES be dangerous to a company's health? Businesses that are wary of labor organizers should keep the Girl Scouts and charities out of workplaces, says a law firm that advises management. "This is an area where employers are vulnerable," warns Mark Neuberger, a lawyer for Pittsburgh-based Buchanan Ingersoll. Neuberger says that court rulings support a union's right to organize on company property once a no-solicitation policy is breached.

The law has taken on new significance because recently elected AFL-CIO President J Sweeney plans to step up ganizing, targeting office hospital workers. Union cials say that while they d wish to discourage char they would take advant of any breach opened solicitors.

Neuberger says that law allows businesses to e in one big charity, such United Way, without eroc the no-solicitation policy. W anticookie policies may h the Girl Scouts, officials in that cookie sales, even on winter days, depend larg on door-to-door sales rat than office contributions. don't be surprised if yo hit up for cookie mo through a backdoor appro office E-mail. *Stephen Bo*

THE BIG PICTURE

INVESTOR CLOUT

Pension funds, mutual funds, and other institutional investors have become a loud voice in corporate governance. But for many CEOs, the pressure is on. Many giant shareholders expect their influence to grow, but none projects a decrease.

FOOTNOTES What consumers expect to spend per average Christmas gift: 1994, $21 to $25; 1995, $16 to $20

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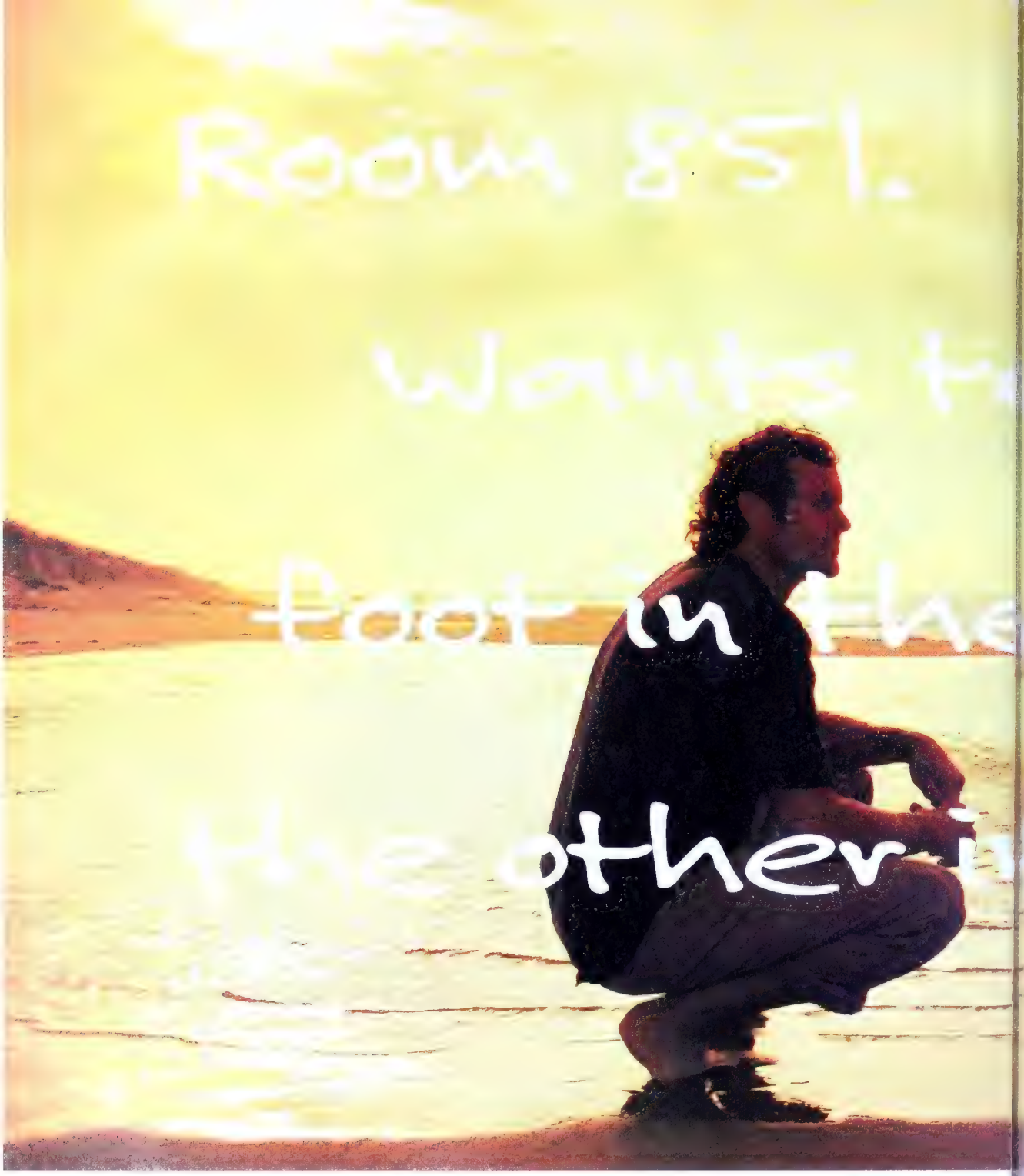

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Readers Report

THOSE NOT-SO-HUDDLED HIGH-TECH MASSES

Regarding your article "Give me your huddled... high-tech PhDs" (Social Issues, Nov. 6): In the last 20 years, the number of foreign workers has swelled to the point that any high-tech company without a significant Indian or Asian component would stand out markedly. The reason is not that insufficient U.S. personnel could be found but simply that foreign workers are often happy to work for fewer dollars. The balance of their compensation comes in the form of the opportunity to remain in the U.S. They are satisfied, and their employers have done what businesses should do: minimize their costs. Neither the action of the workers nor the employers is illogical.

There is another effect of this practice that goes beyond displacing today's U.S. workers. One of the reasons I entered engineering is that even though getting an engineering education is rigorous, I could anticipate a higher-than-average income for my efforts. Now, I am confronted with competitors who accept as part of their compensation simply being allowed to work in the U.S. This is not unfair, per se, but it does mean that future U.S. students will find it less attractive to pursue engineering careers. It follows that it will become necessary to hire foreign workers, thus reinforcing this trend.

If society wants to maintain opportunities in high tech for U.S. students, the playing field will have to be leveled.

Don G. Reid
Round Rock, Tex.

Nothing could be further from the truth than the theory that jobs are being "taken away" by immigrant workers. In a knowledge-intensive business like the information-technology industry, the intellectual standing of the individual far outweighs the cost of labor.

In the changing economic landscape, where the world is becoming more and more of a global village, it is imperative that parochial issues like country of origin take a backseat and "brainpower becomes the key enabler for the growt of the industry and economy. The industry should continue to tap the be and brightest regardless of their countr of origin and actually get global in the recruitment strategy.

Shiv Kuma
Stamford, Con

CORRECTIONS & CLARIFICATIONS

"Almost down to the core?" (News: Analysis & Commentary, Nov. 20) misidentified the vice-president for enterprise and government marketing who resigned from Apple Computer Inc. He is Michael Willcocks.

"Why it's too soon to monkey with the CPI" (Economic Viewpoint, Nov. 27) incorrectly identified Zvi Grilliches. He is a former president of the American Economic Assn. and currently teaches at Harvard University.

DON'T JUMP THE GUN ON THE NEW MILLENNIUM

Your article "Glitch of the millennum" (News: Analysis & Commentar Nov. 13) states: "The problem: Whe the new century begins, most compute will interpret 01-01-00 as Jan. 1, 190 not Jan. 1, 2000."

The computer may err, but the human mind should not. The date Jan. 2000 is not the first day of the new cetury but is the first day of the last ye of this century. The first day of the ne century is Jan. 1, 2001.

As the article states, computers d not know the calendar. Do we?

Robert Floy
Torrington, Con

The seriousness of the Year 20 computer virus merits a much mo in-depth review. The fact that on third of the total global spending for iformation systems over the foreseeab future will be dedicated to this proble means that companies will be diverte

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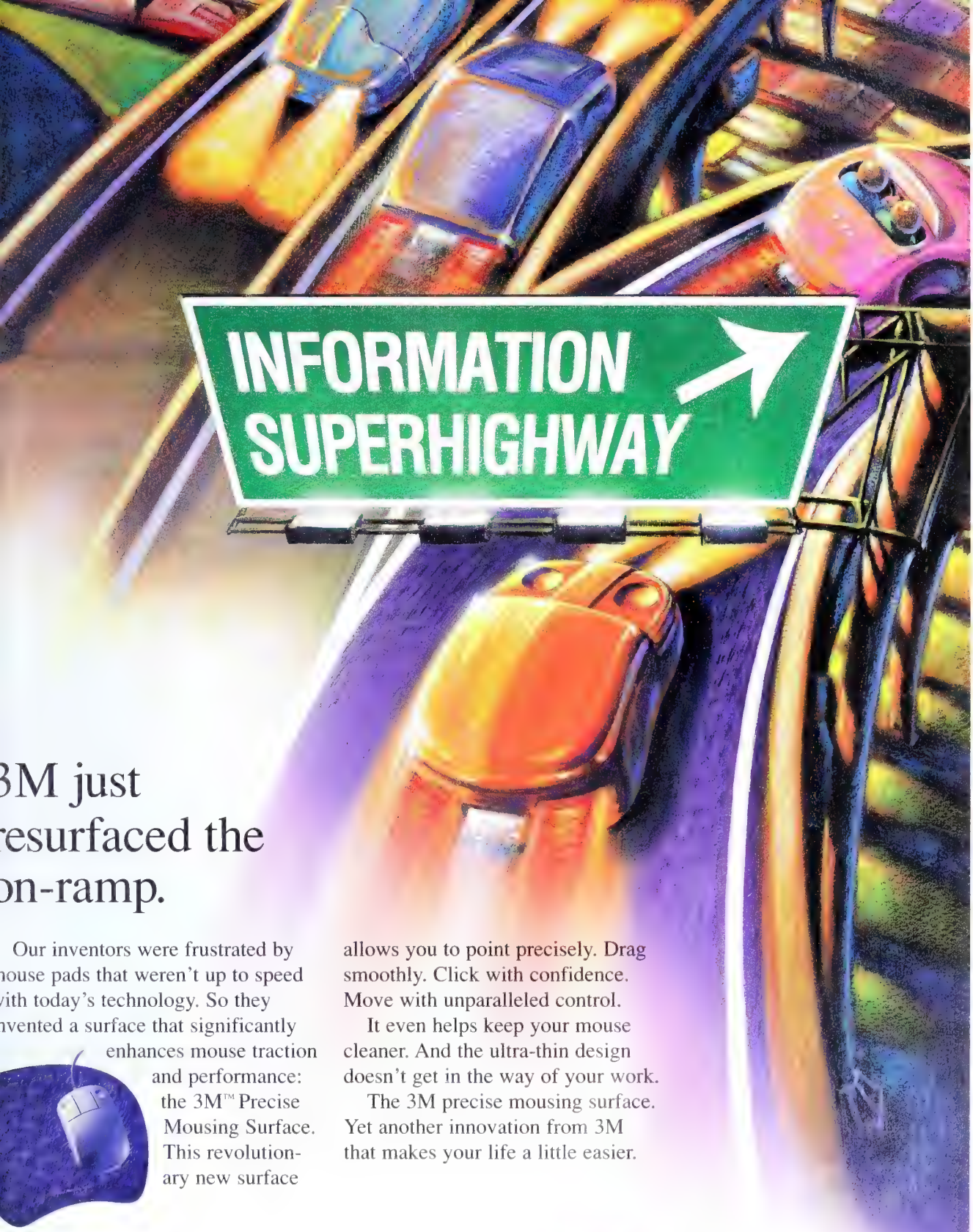

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William Cook
Marietta, Ga.

TAKING THE LONG VIEW ON BONDS

In the article "Why bonds should get more respect" (Finance, Nov. 13), your reporter says: "Over the past 15 years, long-term government bonds have returned 12% and the Standard & Poor's 500-stock index 16%...." He failed to mention that the difference of 4% compounded for 15 years leaves you with 50% more money in the S&P account than in the bond account.

Oh, the joys of compounding.

J. Michael Cavitt, CFP
President
Cavitt Asset Management Inc.
Iowa City, Iowa

Christopher Farrell's commentary doesn't address investors with long-term horizons. The main value of long-term bonds is to the bond trader, as a play on interest rates for capital gains.

Quoting, as your writer did, a return of 11% on bonds in the 1990s is very misleading. That return includes a large capital-gain component due to falling interest rates—fine for the astute trader but of no value to the buy-and-hold investor. One can invest in a bond for either capital gain or for income, but not for both simultaneously.

William F. Hummel
Los Angeles

WHO SAYS APPALACHIA'S SKI RESORTS ARE JUST PORK?

In "Stand and deliver, Congress" (Editorials, Sept. 18), your statement that "the Appalachian Regional Commission still gets to build facilities at ski resorts..." is grossly misleading.

ARC has, in fact, provided assistance to economic development projects that may involve ski resorts. In these instances, they were part of a broader local economic-development plan that involved the investment of significant private-sector funds and the creation of a significant number of jobs in the private sector.

The impact of these programs can be seen in statistics related to unemployment, rate of poverty, per-capita income, high-school dropout rates, infant mortality rates, etc. ARC funds are not ent tlements. They are investments in th future of the region and the nation, an they have paid off handsomely.

Nick J. Rahali
Member of Congre
Washingto

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st the beginning of a continuous process of
ovement in everything we do.

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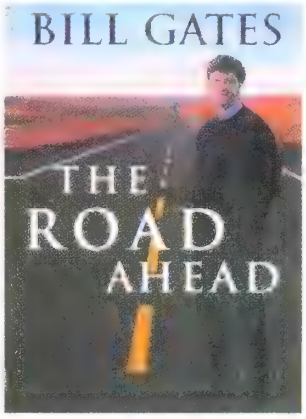
EAVY FOG N THE I-WAY

When, in the spring of 1994, Bill Gates announced plans to write a book that would lay his views on the Information Superway, it made news all over the d—not just because of the $2.5 milplus advance, but because the work nised to provide a glimpse into the n behind the billions. What did the epreneur who so adroitly rode the onal-computer revolution have in d for the next great technology e? In looking through the thicket way technologies, business plans, speculation, what had this great ness executive concluded? What d Gates reveal about Microsoft .'s own plans? And, given his amazability to quickly grasp emerging kets and business strategies—and them up in trenchant, brutally k analyses—what might he say t the plans of others?

e Road Ahead, which arrived amid rrage of Thanksgiving week pub- opportunities (Gates was on the r of *Newsweek* and is scheduled to ar on everything from David Letan and MTV to *Nightline*), doesn't e close to answering any of those tions. For starters, some 30% of book is devoted to the road be—the familiar history of Gates, Miift, and the PC revolution. Perhaps cit acknowledgement of its shortngs, on the eve of publication, Miift execs were positioning the book rt of an I-way primer. Sure, techno- y types may find little to sink their n into, the spinners said, but it's or them: It's for the folks sitting on sidelines—your mother, perhaps.

ertainly, *The Road Ahead* won't of- Mom—or anybody else. The final uscript, which arrived 12 months be- schedule because of extensive ites, is credited to Gates, his resident nical guru, Nathan Myhrvold, and freelance writer Peter Rinearson. But it often reads like the product of a much larger committee. The book is so sanitized that even the descriptions of Microsoft's fractious partnership with IBM would pass muster with Big Blue's public-relations department. The tone throughout is breezy, well-modulated, and almost completely humorless. In other words, Gates's voice can scarcely be heard.

But the real disappointment of *The Road Ahead* is the way it obscures what Gates is really thinking. Instead of learning what's going on behind those egghead glasses, we get a very conventional recitation of what is by now very conventional wisdom.



Much of the book reads like a clip-job of recycled news and opinion: The I-way will bring sweeping changes to how we educate and amuse ourselves. It will replace old ways of doing business, squeezing out inefficient middlemen. High-speed networks will allow workers to leave urban areas and telecommute, perhaps even working in virtual corporations. None of this will happen overnight because we need high-speed communications, easy-to-use software, and compelling new "content." Deregulation will speed the process. In the meantime, the Internet is where the I-way is being built.

When the narrator does speak up, it is often to voice bland aphorisms: "Technology's role is to provide more flexibility and efficiency. Forward-looking business managers will have lots of opportunities to perform better in the years ahead." My favorite: "The information highway won't solve every problem, but it will be a positive force in many areas."

On rare occasions, Gates seems to take a stand but quickly cops out: "We believe . . . that using the PC/Internet market is the likeliest means of extending interactive TV and the highway. But similar arguments could be made in favor of other computer platforms or even home game machines." Remember, Microsoft still wants to sell software for "other computer platforms" such as cable-TV set-top boxes.

This is not to say that Gates uses the book to push an overt Microsoft agenda. Indeed, what makes *The Road Ahead* a weird read is the way it bends over backwards to avoid discussing any real products, companies, or I-way strategies. This produces a strangely distorted view of the state of the Information Revolution. Gates tends to cast most everything in an indistinct future despite the fact that in many instances, the new technology is either available now or soon will be. For example, in a chapter on the impact of information technology on business—a particularly disappointing one, given Microsoft's obvious expertise—Gates discusses functions such as online bill-paying, already used by thousands of Intuit customers, as if they were yet to be invented. Similarly, he describes as not yet here the document-sharing software that Intel Corp. and others have been selling for a year or more.

This isn't necessarily a conspiracy of silence: He ignores lots of Microsoft technology, too. The idea may be to portray even more dramatic changes on the horizon, but it's a great disservice to the reader. Gates's description of the current-day Internet, for example, leaves the impression that we're still back at the dawn of the new era, back before the world discovered the World Wide Web and started building a new computer industry there—without waiting for Microsoft to lead the way.

He boldly predicts, for example, that hundreds of entrepreneurs will start businesses to create programming and content for the Net. Hello? Maybe readers have heard of Netscape Communications Corp., the startup run by former University of Illinois computer jock

GATES BENDS OVER BACKWARDS TO AVOID DISCUSSING PRODUCTS, PLAYERS, OR STRATEGIES

Ah, isn't the
information age
just wonderful?

In Dante's *Inferno,* the damned in the seventh circle of Hell must stand neck deep in boiling lava. Not that things are quite that bad in today's business world. At least *you* can get GroupWise™—the groupware solution from Novell®. Its Universal In Box helps you control the flood of information by letting you see and manage E-mail, appointments, faxes, even voice mail—all from one place. And with GroupWise you have the option of using a laptop, phone, or pager to retrieve your messages no matter where on earth (or in Hell) you are. So follow the lead of over 5 million users who are already being kept in the loop, and out of limbo. *To learn how other companies are staying on top, check out http://www.novell.com on the Internet, or call us at 1-800-778-1851.*

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Books

Marc Andreessen? Maybe they remer ber that this outfit—about the highes profile startup to hit Silicon Valley in decade—went public on Aug. 9 and s new records for an initial public offerin

The word Netscape doesn't appear the book. And it can't be that the upsta hadn't hit Gates's radar in time. In tl published text, *The Road Ahead* refe to the proposed Time Warner buyout Turner Broadcasting, which was a nounced on Sept. 23. No, the Netscap omission suggests another motive: I not acknowledging how far such comp nies have already come in transformir the Web into the I-way, Gates subtly a tempts to turn back the clock, to a tin before the upstarts stole his march.

You can't blame Gates for such wis ful thinking. But the Web and comp nies such as Netscape and new Intern technologies such as Sun Microsyster Inc.'s Java programming language (al not mentioned) are changing the rules the software industry (page 78). Th has investors questioning Microsoft's f ture—and Gates applying his talents a broad range of Web initiatives.

In the book, Gates does acknowled that, in theory, Microsoft could be danger of falling behind on the I-wa But his take is exasperatingly vague. unexpectedly find myself a part of the e tablishment," he writes. "My goal is prove that a successful corporation ca renew itself and stay in the forefront The book that tells how one of tl world's sharpest business minds plans tackle that would be a real page-turne

For now, readers might do better focus on the entertaining CD-ROM versi of *The Road Ahead* (included in the $ cover price). It sticks pretty close the book, but at least it shows some Microsoft's promotional flair. It also fe tures clips of Gates that show a bit his thinking and personality. The sta of the show, though, are Gates's $ million dream house ("nothing ostent tious," he writes) and a marvel of tl future, a wallet-size PC. As shown v computer animation, the PC miraculou ly adapts to any digital purpose, fro bank card to TV set to wireless phor It is, in fact, an eerie echo of the Knov edge Navigator, a gee-whiz tablet co puter that former Apple Computer Ir CEO John Sculley dreamed up and d scribed in his 1987 book, *Odyssey*. Li Gates, Sculley had his "vision" turn into an animated film—and then in the Edsel-like Newton MessagePa Let's hope that's not a portent.

BY GEOFF LEW

Senior Editor Lewis supervis BW's coverage of information technolo

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BY STEPHEN H. WILDSTROM

GLAD TIDINGS FOR TECHIES

High-tech accessories and software for the electronic whizzes on your list

Computer makers are hoping their products fly off retailers' shelves in unprecedented numbers this holiday season. But you may be looking for something just a bit less pricey in the high-tech gift line, whether software or electronics accessories. Here are a few new items that would make fine presents for technology-minded children, spouses, relatives, or friends.

For parents, one of the season's hot topics has been protecting youngsters from some of the raunchier material on TV and online services. While technologies still are being developed for the task, Tele-Communications Inc. (800 934-1111), the big cable operator, has come up with a novel idea: a Kid Control remote that can only select the channels that you program in. The $30 device comes in two styles, a purple puppy and a blue dinosaur, and is easily programmed for your TV or cable box. You can activate up to eight channels of your choice. While kids older than 7 can probably figure out how to reprogram the device for MTV and the Dirty Movie Channel, the clicker can keep the littlest ones out of trouble—and spare you from being a nag.

For children who have not yet become total couch potatoes, 3D Movie Maker from Microsoft Corp. promises to be one of this holiday season's more interesting software titles. The $50 program, which requires Windows 95, is aimed at children 8 and up. It allows the "director" to create complicated animated movies, complete with multiple camera angles, sound effects, and dialog, simply by using clicks of the mouse. Although not billed as an educational program, 3D Movie Maker encourages more creativity than most software does. The package should be in stores by the end of November. (For software gift possibilities for younger children, take a look at "CD-ROMs for the Preschool Set," in the Nov. 13 BUSINESS WEEK.)

As part of its aggressive push into consumer markets, Microsoft also has a treat for game players. The $60 SideWinder 3D Pro joystick, designed for use with DOS or Windows 95 games, uses opto-electric motion sensors in place of the mechanical variable resistors used in most game controllers. The result is more accurate control and greater reliability. The device also is designed to take maximum advantage of the new 3-D games that will be appearing next year. A stripped-down version, the SideWinder, costs $30.

Holidays are for adults, too, though the gifts we get tend to be less fun. Personally, I can't think of anything that would make financial record-keeping a pleasure, but lots of people seem to enjoy using Intuit Inc.'s Quicken to do just that. Now it's easier—and cheaper—than ever to keep Quicken with you wherever you go with Pocket Quicken on Bookman from Franklin Electronic Publishers Inc. (800 266-5626). The $99 device includes a link to exchange entries with a desktop version of Quicken. It also accepts more than a dozen other Bookman cartridges that give users a variety of reference materials. For the seriously gadget-minded, Hewlett-Packard Co.'s new OmniGo 100 offers a good bet. The OmniGo, which costs $350, is somewhere between a pocket organizer and a personal digital assistant. Small enough to fit in a purse or suit pocket, its software includes phone, address, and appointment books, a simple spreadsheet, an excellent financial calculator and, yes, Pocket Quicken. Data entry is through a diminutive but usable keyboard. You can also enter data with a pen, using the special, but easy-to-learn shorthand of Palm Computing's Grafitti.

But all Quicken and no play could make anyone dull. If there's a Web-surfing sports fan on your holiday shopping list, Starwave Corp. and ESPN may have the ideal present. ESPN SportsZone (http://espnet.sportszone.com), following an accelerating trend on the Internet, has greatly expanded its offering of services—and moved the best information, including advanced statistics and fantasy leagues, to a subscription only service. The service costs $4.95 a month, or $[illegible] for an annual subscription.

Whether your gift-giving inclinations favor fun or the electronic equivalent of a warm sweater, you can find high-tech goodies for every budget. Happy shopping.

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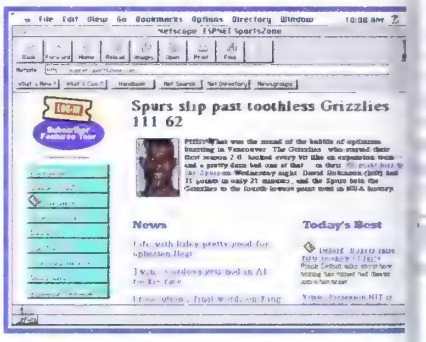
SIDEWINDER 3D PRO $60
Microsoft's joystick is aimed at new 3-D games



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	11.80	11.60	19.38	18.96	36.67	35.84	71.25	69.59
	10.25	11.80	20.42	19.59	38.75	37.09	75.42	72.09
	10.67	10.09	21.46	20.21	40.84	38.34	79.59	74.59
	11.17	10.59	22.71	21.46	43.34	40.84	84.59	79.59
	11.67	11.34	23.96	23.13	45.84	44.17	89.59	86.25
	12.25	11.67	25.21	23.96	48.34	45.84	94.59	89.59
	12.84	12.25	26.25	25.21	50.42	48.34	98.75	94.59
	13.59	12.67	27.71	26.25	53.34	50.42	104.59	98.75
	14.25	13.00	29.38	27.30	56.67	52.50	111.25	102.92
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51	24.67	19.67	45.84	36.46	89.59	70.84	177.09	139.59
52	26.92	21.00	49.17	39.38	96.25	76.67	190.42	151.25
53	29.34	22.67	52.50	42.30	102.92	82.50	203.75	162.92
54	31.84	24.42	56.67	45.42	111.25	88.75	220.42	175.42
55	34.92	26.25	61.88	48.75	121.67	95.42	241.25	188.75
56	38.34	28.25	67.30	52.30	132.50	102.50	262.92	202.92
57	41.67	30.34	73.55	56.46	145.00	110.84	287.92	219.59
58	45.50	32.75	80.21	61.46	158.34	120.84	314.59	239.59
59	50.09	35.34	88.34	67.30	174.59	132.50	347.09	266.92
60	55.67	37.84	97.71	73.55	193.34	145.00	384.59	287.92
61	62.50	40.34	109.17	80.42	216.25	158.75	430.42	315.42
62	70.34	43.34	121.46	88.75	240.84	175.42	479.59	348.75
63	78.75	46.92	135.42	98.55	268.75	195.00	535.42	387.92
64	87.75	51.34	150.84	109.80	299.59	217.50	597.09	432.92
65	96.84	56.17	168.13	121.88	334.17	241.67	666.25	481.25
66	106.17	60.84	187.30	131.46	372.50	260.84	742.92	519.59
67	115.17	65.50	207.30	141.46	412.50	280.84	822.92	559.59
68	125.17	69.67	229.59	152.09	457.09	302.09	912.09	602.09
69	137.17	72.92	257.30	159.59	512.50	321.25	1022.92	640.42
70	152.92	75.42	292.50	170.42	582.92	338.75	1163.75	675.42
71	171.34	82.42	332.92	187.30	663.75	372.50	1325.42	742.92
72	192.09	91.00	378.75	207.92	755.42	413.75	1508.75	825.42
73	215.50	102.09	430.21	234.38	858.34	466.67	1714.59	931.25
74	241.42	115.75	486.88	266.46	971.67	530.84	1941.25	1059.59
75	269.92	131.42	549.17	302.92	1096.25	603.75	2190.42	1205.42

r amounts available upon request. Premiums are standard rates based on applicant's age at issuance of policy. [illegible] emiums are paid. Premiums may be paid annually, semi-annually, and monthly bank draft only. (A no-cost medical exam may be required depending ge, health, or amount of coverage desired). Policies $100,000 and above, CE-82 Plus, Policy Form No. 80-RCT 79D. Graded Premium Level Death efit to age 95. Premiums increase annually. Policies underwritten by The Old Line Life Insurance Company of America, A USLIFE Company, 707 North enth Street, PO Box 401, Milwaukee, WI 53201-0401 (414) 271-2820. Established 1910. Over $45 Billion Dollars of Life Insurance in force. Rated Superior) by A.M. Best Company*. NOT AVAILABLE IN ALL STATES. Paid advertisement.

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AMT. OF INS. DESIRED _____ TOBACCO ☐ NON-TOBACCO ☐

HOME PHONE ( ) _____ WORK PHONE ( ) _____

BENEFICIARY _____

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ADDITIONAL APPLICATION REQUESTED FOR:

NAME _____

DATE OF BIRTH _____ MALE ☐ FEMALE ☐

AMT. OF INS. DESIRED _____ TOBACCO ☐ NON-TOBACCO ☐

Comments: _____

☐ I wish to cover my children

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Issue Age	$100,000 Male	$100,000 Female	$250,000 Male	$250,000 Female	$500,000 Male	$500,000 Female	$1,000,000 Male	$1,000,000 Female
20	16.59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
21	16.59	16.09	34 38	31.25	66 67	60.42	131.25	118.75
22	16.59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
23	16 59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
24	16.59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
25	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
26	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
27	16.59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
28	16.59	16 09	34.38	31.25	66.67	60.42	131.25	118.75
29	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
30	16.59	16.09	34 38	31.25	66.67	60.42	131.25	118.75
31	16.84	16.09	35.00	31.25	67.92	60.42	133.75	118.75
32	17.09	16.09	35.63	31.25	69.17	60.42	136.25	118.75
33	17.42	16.09	36.25	31.25	70.42	60 42	138.75	118.75
34	17.67	16.09	36 88	31 25	71.67	60.42	141.25	118.75
35	17.92	16.09	37 30	31.25	72.50	60.42	142.92	118 75
36	18 59	16.42	38.96	32.30	75.84	62.50	149.59	122.92
37	19.59	16 84	41.25	33 34	80.42	64 59	158.75	127.09
38	20.59	17.17	43.75	34 38	85.42	66.67	168.75	131.25
39	21.92	18.17	46 88	36.67	91.67	71.25	181.25	140.42
40	23.17	19.50	50.00	39.80	97.92	77.50	193.75	152.92
41	24.84	20.34	53.96	41 67	105.84	81 25	209.59	160.42
42	26.42	21 42	57.71	44.17	113 34	86.25	224 59	170.42
43	28.34	22 42	61.67	46 46	121.25	90.84	240.42	179.59
44	30.50	23.25	66.67	48 75	131.25	95.42	260.42	188.75
45	33.25	24 00	72.09	50 63	142 09	99.17	282 09	196.25
46	35 42	25 00	76.05	51.88	150.00	101 67	297.92	201.25
47	37 84	26 00	80 00	53.55	157.92	105 00	313.75	207.92

MONTHLY RATES

Issue Age	$100,000 Male	$100,000 Female	$250,000 Male	$250,000 Female	$500,000 Male	$500,000 Female	$1,000,000 Male	$1,000,000 Female
48	40.42	27.50	84.80	55.42	167.50	108.75	332.92	215.42
49	43.17	29.42	89.59	57.92	177.09	113.75	352.09	225.42
50	46.50	31.67	95.00	60.42	187.92	118.75	373.75	235.42
51	49.34	34.00	101.05	64.59	200.00	127.09	397.92	252.09
52	52.25	36.34	107.09	69.17	212.09	136.25	422.09	270.42
53	55.42	39.34	113.75	74.17	225.42	146.25	448.75	290.42
54	58.50	42.34	121.88	79.38	241.67	156.67	481.25	311.25
55	62.25	45.67	131.67	84.59	261.25	167.09	520.42	332.09
56	68.34	49.50	140.21	90.42	278.34	178.75	554.59	355.42
57	74.34	53.50	149.38	97.71	296.67	193 34	591.25	384.59
58	81.34	58.34	158.96	106.25	315.84	210.42	629.59	418.75
59	89.59	63.34	170.42	116.25	338.75	230.42	675.42	458.75
60	99.50	68.34	183.55	127.30	365.00	252.50	727.92	502.92
61	111.84	73.00	204.17	139.17	406 25	276.25	810.42	550.42
62	125.92	78.42	226.67	153.75	451.25	305.42	900.42	608.75
63	141.17	84.92	251.88	170.63	501.67	339.17	1001.25	676.25
64	157.34	93.00	280.00	190.21	557.92	378.34	1113.75	754.59
65	173.67	102.00	310.84	211.46	619.59	420.84	1237.09	839.58
66	190.50	110.92	344 38	228.55	686.67	455 00	1371.25	907.92
67	206.67	119.84	378.55	247.09	755.00	492.09	1507.92	982.08
68	224.67	128.00	417 09	266.67	832.09	531.25	1662.09	1060.42
69	246.34	134.59	464.38	284.80	926.67	567.50	1851.25	1132.92
70	274.75	139.67	525.00	301.46	1047.92	600.84	2093.75	1199.59
71	307.75	151.34	597.71	332 30	1193 34	662.50	2384.59	1322.92
72	345.09	165.42	680.21	370.00	1358.34	737.92	2714.59	1473.75
73	387.25	183.92	772.92	418.13	1543.75	834.17	3085.42	1666.25
74	433.84	206.67	875.21	477.09	1748.34	952 09	3494.58	1902.09
75	485.17	232.50	987.09	543.96	1972.09	1085.84	3942.09	2169.58

[illegible] Premiums are standard rates based on applicant's age at issuance of policy. Policies are non-cancellable as long as premiums are paid. Premiums may be paid annually, semi-annually, and monthly bank draft plan. (A no-cost medical exam may be required depending on age, health, or amount of coverage desired) Policies $100,000 and above, CE-82 Plus, Policy Form No 80-RCT-79D, Graded Premium Level Death Benefit to age 95 Premiums increase annually Policies underwritten by The Old Line Life Insurance Company of America, A USLIFE Company, 707 North Eleventh Street, PO Box 401 Milwaukee, WI 53201-0401 (414) 271-2820 Established 1910 Over $45 Billion Dollars of Life Insurance in force. Rated A+ (Superior) by A.M. Best Company*. NOT AVAILABLE IN ALL STATES. Paid advertisement.

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Y AUL CRAIG ROBERTS

ELFARE: MAYBE THE STATES AN FIGURE OUT WHAT WORKS

ISASTER: ith the stem widely en as a flop, ashington is mping it in e states' ps. But deral judges ill no doubt y to meddle

l Craig Roberts is John M. Olin ow of the Institute for Political nomy and Distinguished Fellow he Cato Institute in Washington, . He is co-author of *The New or Line: How Quotas and Privilege stroy Democracy* (Regnery Pub- ing, October, 1995).

President Bill Clinton promised to end welfare "as we know it." As we know it, welfare is an open-ended entitlement that has been successful in spending money but unsuccessful in achieving its goals.

Policymakers perceive that part of the problem lies in the way welfare is financed: with federal matching grants. It only costs states 50¢ to expand welfare spending by $1. The welfare reform bill moving through Congress would bring this to an end by substituting federal block grants, capped at existing spending levels, for open-ended matching grants. This reform would double the marginal cost to state taxpayers of expanding welfare. Thus, states would have more incentive to control their welfare programs and to get better results for their money.

However, the factors driving welfare reform are not primarily budgetary. The programs are widely viewed as failures, and the federal government can think of nothing new to try. In view of welfare's sorry long-term track record, yet another federally sponsored job or training program seems pointless. The feds are passing the buck to the states, hoping that somewhere in the numerous separate jurisdictions someone will hit on something that will work.

LITTLE IMPACT. The bipartisan dissatisfaction with welfare is the result of three factors: One is that welfare was originally sold as a widow's allowance. But with the passage of time, it turned into an allowance for women with illegitimate children. In effect, welfare became a barrier against family formation.

A second factor is that welfare has ceased to be a safety net and has became a way of life. Welfare was supposed to protect people while they got back on their feet. For many, however, with limited career prospects, a welfare package consisting of Aid to Families with Dependent Children, food stamps, Medicaid, housing assistance, nutrition assistance, and energy assistance has proved to be more attractive than earned income. According to a recent Cato Institute study, in 28 states and the District of Columbia, this welfare package is worth more than the starting salary for a secretary. In 46 states and the District of Columbia, it exceeds the earnings of full-time janitors. In eight states and the District of Columbia, the benefits exceed the national average for first-year teachers' salaries. In five states and the District of Columbia, welfare benefits exceed the national median wage for computer programmers.

A third factor is that we have spent $5 trillion since President Lyndon B. Johnson began the War on Poverty—with very little impact on the poverty rate.

It remains to be seen whether reform will succeed in uncovering more successful approaches to welfare or even in limiting the growth of welfare spending. There is nothing in the current reform bill that would reduce the demand for welfare. Still, if the bill succeeds in making states more resistant to expanding their welfare expenditures, the package of welfare benefits may become a less attractive alternative to employment over time.

JUDICIAL SCRUTINY. However, the courts have not been heard from, and there is every reason to expect federal judges to intervene—not perhaps with Congress, but with state and local attempts to curtail welfare benefits. The problem with welfare is that "protected minorities," as defined by the courts, are disproportionately represented. Therefore, welfare cuts will be seen as having a disparate impact on a protected class and as ipso facto proof of race and gender discrimination.

It is only a matter of time before a federal judge makes this discovery. On Nov. 8, Federal District Judge Robert P. Patterson Jr. blocked a 25¢ fare increase (20%) by New York City's Metropolitan Transportation Authority on the grounds that it would have a disparate impact on protected minorities. The judge was swayed by statistics showing that 60% of the city's subway riders are members of minority groups. It appears that if the MTA wants the New York City fare increase to stand, or to avoid future controversy, it must raise fares on suburban commuter railways by the same amount. Since the suburban commuters are primarily white, only a balanced fare increase can be interpreted as a nonbiased action. Yet a different judge could just as easily treat the city and suburbs as two separate markets and still rule against the subway fare hike because it will have a disparate impact on minorities.

If a city's subway fares attract this level of judicial scrutiny, which many find overreaching, then it seems obvious that welfare reform will be similarly challenged for its disparate impact.

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BY GENE KORETZ

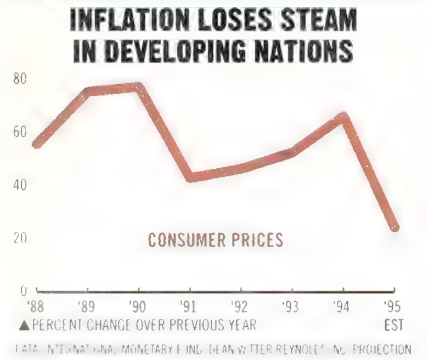
INFLATION IS EBBING ALL OVER

It's falling in the Third World, too

With consumer price inflation in industrial nations expected to average less than 3% next year for the fourth year in a row, attention has shifted to the developing world, where high and volatile inflation (averaging 50% and above) has long been the rule. And there the news, observes economist Joseph P. Quinlan of Dean Witter Reynolds Inc., is "extraordinarily good."

The International Monetary Fund reports that consumer price hikes in developing nations have been slowing sharply for more than a year—from a 12-month average increase of 73% in June, 1994, to under 29% by June of this year. For 1995 as a whole, Quinlan expects the rise to come in under 25%, its lowest level in 15 years.

In part, this showing reflects the current slowdown in industrial economies, softer commodity prices, and heightened global competition. But the most significant factor, says Quinlan, has been the adoption of economic reforms in response to domestic economic crises and pressure from international lending agencies. Taking a cue from fast-growing Pacific Rim economies, many nations have implemented privatization, deregulation, fiscal and monetary discipline, and trade and financial market liberalization.



The results are apparent around the globe. In China, inflation is running at half the 27% rate of a year ago. In Brazil, its monthly pace is down to 2% from 40% in early 1994. From Bulgaria, the Czech Republic, Slovakia, Poland, and Slovenia to Argentina, Ecuador, and Peru, price hikes have slowed sharply.

While still far from single digits, future inflation in developing countries may well prove more contained and less volatile than in the past. "Once nations open up their economies," notes Quinlan, "they are exposed to the swift and often brutal discipline of the markets."

A SLIGHTLY LESS LITIGIOUS U.S.?

A slowdown in the rush to sue

The U.S. still leads the world in tort costs—the area of law covering personal and property injury suits, including malpractice, product liability, and auto accident cases—but its lead is no longer widening. According to a new study by Tillinghast-Towers Perrin, a management consulting firm, U.S. tort costs have been slowing appreciably.

Such costs (legal and administrative, as well as jury awards and settlements) run about 2.2% of America's gross domestic product, reports the firm. That compares with 1.3% in Italy and Germany; 0.8% in Britain, France, and Canada; and 0.5% in Japan. While most nations' costs have been relatively stable, U.S. costs grew about 50% faster than the economy from 1950 to 1985, bringing the tab to 2.5% of GDP in that year.

The big surprise is the more recent slowdown in tort costs, which apparently reflects a lessening propensity to sue, since it coincides with a leveling off in the number of claims filed since 1985. With tort reform laws passed in almost every state over the past decade, the firm speculates that growing corporate and public resistance to rising tort costs may be deterring potential litigants.

HOW TO AVERT THE NEXT MEXICO

Timely economic data would help

A lot can be learned from last year's Mexican crisis. That's the message of a paper presented by economists Lawrence R. Klein, A. Gilbert Heebner, and Frederick Heldring at a recent conference sponsored by the Federal Reserve Bank of Philadelphia and the Global Interdependence Center.

Among the signs that should have alerted international investors and lending agencies to the growing risks of a crisis, note the economists, were Mexico's large current-account deficits, coupled with its low savings rate and artificially high exchange rate. Mexic widely unequal income distribution a political turmoil were other bad ome

To avert and contain future crises emerging nations, the economists str the need for greater surveillance by t International Monetary Fund and standby plans to set up syndicates loans to help problem nations. They a stress the importance of accurate a timely economic data. By mid-1994, M ico had stopped reporting the level its international reserves, which we dropping sharply. Had this been know market pressures at home and abro might have impelled Mexican officials take action earlier—thus averting, or least lessening, the ensuing crisis.

By Kathleen Madig

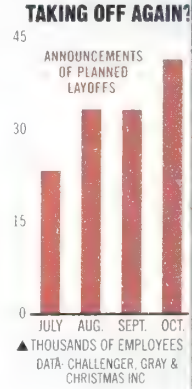
DOWNSIZING ISN' DOWN ENOUGH

Employees are still under the gu

Only a few months ago, it looked if the downsizing trend afflicti employees of U.S. companies in rece years was finally starting to subside s nificantly. Now, with AT&T's recent a nouncement that it is offering buyo packages to nearly 78,000 manage that seems like a decidedly prematu conclusion.

According to Challenger, Gray Christmas Inc., which keeps tabs layoff announcements by U.S. emplo ers (the AT&T announcement doesn't y qualify because voluntary separatio are not "layoffs"), some 41,335 job c backs were unveiled in October. Wh the total of 343,552 so far in 1995 25% below the first 10 months of 19 the October tally marks a pickup sin last summer and is the second-highe monthly level this year.

One sign that companies are still ke on keeping job rolls thin is a recent survey of 162 human-resources executives by consultants William M. Mercer Inc. Although two-thirds of the execs expect their businesses to grow next year and 37% expect hiring to pick up, almost an equal number, or 35%, foresee employment cuts.



"Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains."

Thomas Jefferson

Realities of the Virtual Enterprise

By James H. Johnson

As we enter the third millennium, traditional notions of time and place will vaporize. Trade and commerce will be conducted through electronic beams of light spanning space and the continents, twenty-four hours a day, seven days a week, 365 days a year. Today's corporations are already reeling from this change. Computer technology is fragmenting time honored business methods by giving companies the ability to assemble and realign pockets of business-critical information over the virtual enterprise. The Virtual Enterprise allows merchants to draw their gains from a federation of attachments based on fast moving markets and customer conditions.

While the Virtual Enterprise is becoming a reality, the current computer infrastructure in most organizations is ill prepared to support it. Over the next two years American corporations will spend more than a half trillion dollars on the labor alone for business software application development.

This represents 52% of all business critical applications. Most of these applications will not help organizations deal with the Virtual Enterprise, due to the lack of fundamental design requirements to operate in this dynamic and complex atmosphere!

The foundation for the Virtual Enterprise is a reliable messaging infrastructure using such technologies as OLTP monitors and enterprise messaging systems. Such an infrastructure will support your current business environment and prepare you for the **Virtual Enterprise.**

Jim Johnson is the founder and Chairman of The Standish Group International, Inc. The Standish Group International, Inc. is a market research and technology advisory firm that specializes in transaction processing and electronic commerce.

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The Virtual Enterprise: Consider the potential of the Virtual Enterprise: to conduct business electronically at any place, any time, with anyone, independent of language or national boundaries. This is created through an infinite commonwealth of organizations brought together to conduct business electronically. Electronic commerce is simply the process of doing business through electronic means. The Standish Group estimates an astronomical $5 trillion dollars worth of business will be conducted via electronic commerce by the year 2000.

"The Standish Group estimates that in four years an astronomical $5 trillion dollars worth of business will be conducted via electronic commerce."

Getting from here to there is not an easy task. Corporations must dramatically change existing information service structures to effectively play the global game. Our research reveals that today's typical software development project takes between two and three years to complete. Ironically, most of these run-your-business software programs will fail due to a fundamental architectural flaw; nearly all are based on the premise of stable relationships.

Within the Virtual Enterprise, relationships are continually evolved, activated and discarded throughout the network as demographic needs change and business needs dictate. To better understand the role relationships play in any organization's computing structure, consider mainframes and personal computers. Personal computers are easy to use, processing is fixed and they serve as a valuable tool for the individual. Mainframes provide manageable centralized processing for internal corporate business and the processing is fixed. Mainframes can be managed and controlled; the Virtual Enterprise on the other hand is anarchistic. PCs have a one-to-one relationship with their users. A mainframe serves many users. The Virtual Enterprise has relationships consisting of many users/services to many users/services. These many-to-many relationships pose the greatest challenge in developing and deploying business applications that are ready for the Virtual Enterprise. Dynamically establishing and maintaining relationships is the key to successful electronic commerce.

Traditional business structures are undergoing dramatic transformations. Wherein a bank was once merely brick, mortar, vault and paper money, today's financial institutions serve as repositories for their most valuable asset – client information. Information itself, and the means of processing this information, have actually become the bank's product. Unfortunately, problems arise when large organizations must link, synchronize and disseminate these products across their enterprise and the economy in general. The Virtual Enterprise is the ability to build a solution for a market or customer by attaching products and services in real-time over a seamless electronic network. Making the transition into the Virtual Enterprise can be made easier with the help of technology solutions such as those offered by UniKix Technologies, Novell, Inc., and Digital Equipment Corporation.

Many Fortune 500 business critical applications have run for years under the auspices of IBM's CICS (Customer Inventory Control System) transaction processing monitor. The Standish Group data shows that 490 of the Fortune 500 rely on this system. Historically, CICS has managed transactions in a non-distributed (i.e., mainframe-centric) world. Fragmenting a CICS application for the Virtual Enterprise can be a challenging task. However, distributing a CICS application can be made easier with tools from UniKix Technologies. Consider the following:

The ultimate example of the reach of the Virtual Enterprise can be seen in the home. Imagine – you're at home, in your driveway and working on your car. You realize you need a certain part. You simply turn on your home computer, scan the automated yellow pages, and proceed to make your selection. With a simple click of a button, you order a set of spark plugs. In reality, a transaction is fired off to the supply store, which then forwards your request and delivery information. The system at the supply store checks inventory. If it can be filled, the order is placed and mailed to your home – perhaps via a carrier service for next-day delivery. If the item is out of stock, the request is passed on to the manufacturer to determine when the item will be available. You, at home, are electronically notified of the status of your order.

How does all this happen? Ask Triad Systems Corporation. Based in Livermore, California, Triad supplies computer solutions to the automotive after-market. The company's Warehouse Management System accommodates functions ranging from inventory management to order entry to sales analysis and price updating. Triad's customers include independent automated warehouse distributors, with annual sales ranging from $15 million to over $150 million. With their market calling for lower cost solutions, and with Triad's need to expand to larger customers, migrating to open systems looks like the right road for Triad. To accommodate their customer needs, while moving forward with open systems technology, Triad contracted UniKix Technologies, of Phoenix, Arizona, to help them downsize their existing CICS-

sed automated warehouse software.

Jsing the UniKix Transaction Processing (TP) moni- solution, Triad was able to smoothly migrate its main- me software from a proprietary platform to a UNIX- sed server solution. Within six months, more than)00 Triad programs were completely ported over to e new system, allowing the $165 million company to ove in a completely new business direction. These ograms now run under the UniKix environment, ich not only guarantees transaction integrity across e Virtual Enterprise, but provides a secure, scalable atform for future growth. Scalability and performance e key product strategies for UniKix.

Another example is FundSERV. FundSERV, based Toronto, provides 12 of Canada's largest mutual fund mpanies with a private high-speed network. This al- ws 180 brokers and dealers to place wire orders, di- ct inquiries and automate file transfers across differ- t systems and protocols throughout the country.

his smoothly implemented electronic exchange re- ntly replaced a more traditional business method. Just months ago, if a particular fund company's machine as inaccessible, brokers would use the telephone or ntract a third party carrier for overnight services. hile this type of processing might be acceptable in any industries, in the mutual funds environment, even nall synapses of time between transaction placement d verification creates room for error.

To alleviate this situation, FundSERV was commis- oned in June 1994 to build a "Box in the Middle" of e network to support connectivity, buffer order flow, d most importantly, ensure that the broker would al- ays receive the proper time stamp. All the different mputing environments at each location have to be aked on-line — a difficult task as the systems at each cation are subject to change depending on the indi- dual company's needs.

To connect different computers and networks and al- w for fluctuating transaction flows in a reliable real time shion, the FundSERV staff determined that the box olution must incorporate several critical components. irst, it must be extremely scalable; second, it must be exible and easy to maintain; and last, but most impor- ntly, it must serve as the basis for long- erm expansion of the business. undSERV selected a UNIX-based server, market-leading relational database, and s the technological linchpin, the Novell uxedo transaction monitor.

The result was the Transaction For- arding System (TFS) — a software sys- em created and implemented in a mere our months. The Tuxedo system man- ges the transaction flow, logs transactions to the data- ase, and delivers them to the fund company for entry n their database. The transaction records are then sent back to FundSERV and on to the dealer. The FundSERV development staff considers the true beauty of the system to be Tuxedo's ability to "shoot a transaction around networks" and dissimilar systems, with replication services which log identical transactions to recover in the event of failure.

Via the Virtual Enterprise concept, global enterprises are currently working to integrate local and distributed product fragments. Every day, applications in banking, transportation, telecommunications and other industries require the ability to execute transactions reliably in real time — without interruption — across distributed systems. To accomplish this organizations often must incorporate a reliable messaging infrastructure. Often called "middleware", it creates a virtual network for conducting business across the enterprise. The power and reliability of a messaging system can be illustrated in Digital Equipment Corporation's Reliable Transaction Router (RTR). Digital's RTR provides software fault tolerance to automatically detect a system failure. Additionally, the product guarantees uninterrupted service and transaction integrity. RTR is ideally suited for mission critical operations requiring continuous availability. Continuous availability is a need for businesses which literally pay a high price for lost data or lost transactions. Perhaps the best example of this can be seen in the American Stock Exchange.

The American Stock Exchange (AMEX), in its pursuit of lightning-fast and accurate trading for its customers, is implementing reliable messaging technology to reach even higher levels of response times and service. The new system, called the AMEX Option Display Book (AODB), is developed and marketed by OM Systems International, based in Stockholm, Sweden. It is designed to eliminate the paper notebook the stock option specialist uses to place orders.

Using RTR as the technological underpinning, all manually written instructions are now automated. This not only increases speed and accuracy, but enables the specialist to better handle peak trading volumes and reduce the overall error risk in the order handling process. The AODB interfaces to the AMEX master files for definition of the traded securities and the traders themselves. Additionally, the AODB provides an interface to the AMEX order processing system for receiving orders and status requests, returning trade reports,

"OLTP monitors and reliable message systems are the technologies making the Virtual Enterprise a reality."

execution reports and status.

Several international exchanges have followed suit by installing OM Systems International's reliable messaging-based products. These include OM Stockholm in Sweden, the OMLX exchange in the United Kingdom, the Austrian Derivatives Market (OTOB), the Hong Kong Futures Exchange (HKFE), and CED Borsa – the technology arm of the Milano Stock Exchange. These organizations are leveraging the power of RTR, together with OM Systems International, to avoid the horrendous costs and risks associated with computer downtime within the industry.

Another successful example of this technology can be seen at Credit Suisse. Credit Suisse is a group company of CS Holding - one of the world's leading financial service organizations - operating from 500 offices worldwide and employing more than 50,000 people. Credit Suisse is running its foreign exchange trade operations using RTR and Digital's OpenVMS Operating System. The company has also implemented Rolfe & Nolan's Lighthouse, an RTR-based software package using Digital UNIX, for trading and risk management in their head office treasury operations. They plan to extend this to major locations worldwide.

Credit Suisse customers expect continuous, integrated, reliable global investment banking services on a 24-hour per day basis. Digital's RTR technology, with its transparent failover and recovery for network links, ensures "once and once only" distributed transaction processing. According to officials at Credit Suisse, the technology provided by Digital Equipment Corporation allows them to guarantee data integrity – and integrity i what business is all about.

The need for reliable, distributed business transaction is by no means confined to the financial community. affects all of us in our everyday lives. Consider that it i now common to drive into a gas station, fill up, pay wit a credit or debit card, and drive off again without eve interacting with an attendant. Another everyday ele tronic transaction is the ATM card, which has revolutio ized the nature of personal banking transactions.

Reliable transaction middleware provides key benefit for organizations. These products can provide a frame work for inter- and intra-company applications – particu larly those which must incorporate both industria strength security and reliable messaging across com pany boundaries. By implementing reliable enterpris messaging solutions, it is proven that businesses ca avoid the costs and risks of downtime or lost data in di tributed environments.

Using middleware technologies as the framework fo the Virtual Enterprise saves organizations both time an money. It ensures a flexible environment for futur growth. Reliable messaging middleware reduces deve opment costs by freeing system designers from focus ing on network infrastructure complexities, to focus in stead on business application requirements. What i most important, however, is the ability to gain competi tive advantage by providing superior service levels t their customers. OLTP monitors and reliable messag systems are the technologies making the Virtual Ente prise a reality.

For more information on Electronic Commerce or any of the companies mentioned herein, please return th following information to The Standish Group International via FAX at 508-385-7522.

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James H. Johnson, founder and Chairman of The Standish Group International, Inc.

The Standish Group International, Inc. conducts market and technology research for users and vendors in the mission-critical OLTP (On-Line Transaction Processing) and open client/server systems marketplace, with a distinct focus on electronic commerce. The company's research dra upon extensive real world industry experience and years of proven market research and consult The Standish Group additionally provides custom consulting services to clients in the fortune 5 government agencies, and major universities.

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JAMES C. COOPER & KATHLEEN MADIGAN

HE NEW ECONOMIC ORDER ILL HOLD DOWN INTEREST RATES

U.S. ECONOMY This time last year, a BUSINESS WEEK survey of 50 economists jected that the benchmark 30-year Treasury bond ıld be yielding 7.9% right now. Not even close. At ıut 6.25%, the yield stands at a 21-month low, and n all signs, it's on the verge of dropping through 6%. shful thinking? Hardly.

The yield on 30-year Treasuries last fell below 6% in ober, 1993, when it hit 5.83%, the lowest since 30-ır bonds were issued in 1977. But it didn't stay re long. The plunge was largely a market overreac-ı to President Clinton's budget-cutting efforts.

This time could be different. The bond market is ognizing that the economy is undergoing important uctural change. The U.S. is moving into a climate of al responsibility, watchful monetary policy, and a npetitive corporate sector—a combination that will ter sustained low inflation and interest rates.

Recent trends only reinforce those perceptions. Fourth-quarter economic growth is slowing, perhaps a lot, after last quarter's 4.2% spurt. Inflation is already below 1995 forecasts, and because productivity gains are restraining unit labor costs, it may best 1996 projections of about 3% as well. Dramatic improvement in the U.S.-Japan trade lance has brightened the outlook for the dollar. And e Federal Reserve seems likely to cut rates in the ıke of a budget deal.

Sub-6% rates will be a vitamin-B shot to this expan-ın (chart). Cheaper borrowing costs will help pro-ıg the capital-spending boom, give housing a second nd, and let homeowners refinance and improve their sh flow. The rule of thumb is that a one-percentage-int drop in interest rates adds $100 billion to gross mestic product over two years.

BUDGET DEAL with credible deficit cuts is the last ece in the sub-6% scenario, but it's a ways off. Con-ess and the White House have put aside their bicker-g, reopened the government, and appear ready for me serious haggling that could bring results by Dec.), when the new temporary funding measure expires. ne Air Force One fiasco, however, illustrates how dif-ult and partisan the negotiations will be.

Some progress is visible. Tax cuts are on the table. The White House seems amenable to balancing the budget in 7 years instead of 10, and Congress seems willing to give a bit on its economic assumptions that project GDP growth of 2.3% through 2002, vs. the Administration's 2.5%. The deficit impact of that small difference compounds over time. Moving the forecast toward the White House numbers will require smaller spending cuts to achieve balance.

Another area for compromise could be the widely accepted overstatement of the consumer price index, which is used to adjust the cost-of-living increases in entitlements, including Social Security and Medicare. The White House and Congress might well agree to a lower cost-of-living adjustment as a way of achieving real spending cuts in these politically sensitive areas.

Meanwhile, with no official increase in the debt limit, the Treasury Dept. will have to continue its unprecedented financial patchwork to avoid a default. Treasury's strategy of temporarily converting certain forms of government debt into cash (which effectively raises the debt limit and allows new borrowing) has indefinitely removed the default threat.

IF NOT FOR THE UNCERTAINTY surrounding the budget follies, the economy's sluggishness might have already brought the 30-year yield to less than 6%. The government shutdown has delayed some monthly data along with the Commerce Dept.'s unveiling of the new chain-weighted GDP, but data compiled by private sources show that growth is flagging.

The latest assessment of homebuilders, for instance, looks weak. The National Association of Home Builders' Housing Market index, a composite appraisal of current demand, buyer traffic, and sales expectations, fell sharply in November (chart). In fact, the monthly drop was the largest in 10 years.

Even though mortgage rates are at their lowest levels of the year, the NAHB said that softer current demand accounted for most of the weakness in the November index. October housing-start figures, originally scheduled for release on Nov. 17, are delayed until Nov. 28, but both home buying and building appear to be easing back from their vigorous third-quarter pace.

The economy's softer tone will make it easier for

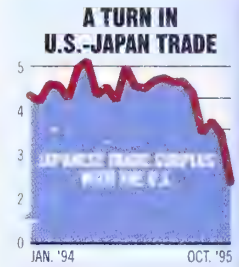
the Fed to justify a widely expected cut in short-term interest rates after Washington finalizes its budget package. Although some Fed members have publicly embraced the notion of easing policy in the face of credible deficit-cutting, others remain adamant in their opposition to a monetary *quid pro quo*.

However, from the recently released minutes of its Sept. 26 policy meeting, the Fed appears to be giving more attention to the economy's downside risks than the minutes from Aug. 22 indicated. One can only conclude that, in the face of increasing signs of sluggishness in the economy, sentiment within the Fed for a rate cut probably increased further at the Nov. 15 meeting. Grounds for a rate cut may well be developing, irrespective of the federal budget outcome.

ANOTHER, AT LEAST PERIPHERAL, factor in the thinking in both the bond market and Fed policy is the dollar's recent firming, especially vs. the Japanese yen. A stronger dollar increases the attractiveness of U.S. bonds, and it gives the Fed more international leeway to cut rates. The dollar now seems entrenched above 100 yen, trading as high as 102 recently.

A key reason is the shrinking in Japan's trade surplus, especially with the U.S. The pace of imports coming into Japan is significantly outstripping the rise of exports. That trend will continue in the months to come, as Japanese companies shift production offshore, and as Japanese exporters continue to suffer from th yen's strength compared to its level in recent years.

In October, Japan's trade surplus with the U.S plunged 44.2% from a year ago, to $2.7 billion, th lowest level in five years, according to data fro Japan's Finance Ministry. Moreover, after seasonal a justment by BUSINESS WEEK, the drop during 19 looks exceptionally steep (chart).



▲BILLIONS OF DOLLARS, SEASONALLY ADJUSTED BY BUSINESS WEEK
DATA MINISTRY OF FINANCE, DRI/McGRAW-HILL, B

Autos account for a big chunk of Japan's trade adjustment with the U.S. In October, auto imports from the U.S., totaling 13,658 vehicles, soared 67.3% from a year ago. Many of those came from Japanese plants in the U.S., but 5,284 came from the Big Three, 66.8% over a year ago.

The firmer dollar, noninflationary growth, and a new attitude toward deficit-cutting all represent structur changes in the U.S. economy. As the angst of corporat restructuring and the battles in Washington sho these changes do not come easily. But they do add u to one important benefit for the future: lower lon term interest rates. To reach that goal, though, it ma be best if the President and Congressional leaders r longer ride in the same airplane.

GERMANY

GROWTH IS DRAGGING ITS FEET

Germany's economy is weakening again, raising the odds for a significant cut in interest rates and muddying the outlook for fiscal policy.

On Nov. 14, the Council of Economic Experts—the "Five Wise Men"—revised their forecast for real gross domestic product growth to 1½% to 2% for 1995 and 1996. The new 1995 rate was one percent less than earlier projections. The strong mark and rising real wage costs—up more than 2% from a year ago—were the reasons for lower growth.

▲INDEX 1985=100
DATA IFO INSTITUTE, DATASTREAM INTERNATIONAL

Certainly, the monthly data show signs of softness in Germany. Industrial production in September was down 2.9% from a year ago. Business confidence is eroding. The IFO Institute's business index fell to 94.5 in October, the fifth decline in a row (chart). The construction industry was particularly downbeat, because homebuilding will suffer after government mortgage subsidies expire next year. Also, the jobless rate inched up to 9.6% in October, from 9.5% in September. It's now the highest in more than a year.

Inflation continues its downtrend. Consumer prices fell in October and are up only 1.8% from a year earlier. The Bundesbank's key inflation gauge, the M3 money supply, rose at an annual rate of just 1.6% in the first nine months of 1995. Indeed, in its monthly economic report, even the hawkish Buba admitted that German inflation was "very moderate." On Nov. 15, the central bank let the securities-repurchase rate slip below 4% for the first time in more than seven years. Analysts expect a cut in the discount rate, now at 3.5%, by early 1996.

The weakening in economic growth, however, means that the government has had to recast its budget projections for 1996. As it stands, the budget will slip just under the goal of 3% of gross domestic product set by the Maastricht Treaty. But slow growth may lower revenues even further, especially proceeds expected from privatization. If so, fiscal plans will have to remain rigid in 1996, even as monetary policy turns more accommodative.

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THE BUDGET

TALKING TURKEY

What a budget deal might look like

The Bosnians and the Serbs hav done it. So have the Israelis ar Palestinians. Now, finally, Whi House and congressional bu geteers are about to put aside the personal invective and sit to down t work out a deal of their own. Soon a ter Thanksgiving, they'll begin tall aimed at slashing the deficit by 2002 and dramatically downsizing the fe eral government.

Certainly, broad political and phil sophical differences still stand in th way of a settlement. "This job is n done," says House Speaker Newt Gin rich (R-Ga.), "We've just taken a coup of steps down the road." But both sid took a first stride on Nov. 19. In th face of voter fury at the six-day go ernment shutdown, Republicans backe away from their no-compromise pos tion. And President Clinton accepte the GOP goal of a seven-year balance budget. The deal was vaporous, but reopened the government and set th stage for serious negotiations. "Soone or later, they had to stop the food fight says Martha Phillips, executive dire tor of the Concord Coalition, a balance budget advocacy group.

To reach a mega-agreement b Christmas, both Clinton and Capitol Hi will have to swallow hard. The GOP wi have to scale back its cherished tax cu and cough up more dollars for some Clinton's priorities, such as educatio and environmental protection. The Pre ident, for his part, already has cede much of the battleground, having pr posed a middle-class tax cut, backed e forts to slow Medicare growth, and er dorsed welfare reform. Now, he wi have to accept even greater Medicar savings as well as the seven-yea timetable. "We all want it our way says Representativ Barbara B. Kennell (D-Conn.), "What w have to understan is it can't be all ou way."

SEVEN-YEAR SOLUTION
Clinton may have to accept major savings in future Medicare spending and a shorter balanced-budget timetable

Corporate execu tives, who had bee fuming at the displa of petulance on th Potomac, are cau tiously optimisti that Washington wi finally cut the defici That, they hop will reduce interes rates, spur invest ment, and kick th economy into over drive. "America companies will thin

; is a good first step," says Daniel J. lery, executive vice-president of man- cturer Carts of Colorado Inc.

3ut any deal between Clinton, Ging- ı, Senate Majority Leader Bob Dole, House Budget Committee Chairman n R. Kasich (R-Ohio) still will have to ke it through Congress. In the Senate, ozen moderate Republicans hold the ance of power. In the House, it rests h 50 to 75 conserv- ve Democrats, who eady have proposed even-year balanced dget that calls for modest hit on dicare and no tax s at all.

These centrists will a powerful spur for h Clinton and Hill leaders to find a npromise. If that's enough, the conse- ences of failure loom ge. For now, finan- l markets seem con- ent that a deal can struck. But onard Miller, CEO of orida homebuilder nnar Corp., warns at gridlock would sh up interest rates d be a huge "nega- e" on the economy. wmakers would be ting ducks. "This absolute- has to get done, or every- dy's political fortunes are deep trouble," says R. uce Josten, senior vice- esident of the U. S. Cham- r of Commerce.

RTHER SHRINKAGE. Before y agreement is reached— obably around Christmas— wmakers are in for a month white-hot budget talks.

"The size of the tax cut ill drive the whole deal," ys one top White House de. House Republicans first anted to cut taxes by $350 llion over seven years. at has been scaled back to 45 billion. And business ex- utives say they'd be willing to see even smaller tax cut. Richard L. homas, chairman of First Chicago orp., says he'd favor a further roll- ack of the tax package—"but only if e have some meaningful surgery on ending." Gingrich is hinting that the ackage indeed will shrink some more.

Clinton and Congress have both endorsed a $500-per-child tax cut. The President would go along with a capital-gains tax cut as well. But both may have to be trimmed back, and the capital-gains proposal may no longer be retroactive to last January. Republicans would also have to drop their attempt to slash a tax credit for the working poor. The White House says it might tighten up the fraud-ridden program, but that's it. In all, a tax cut could well be scaled back to $175 billion.

GOING SLOWER
Kasich, Dole, and Gingrich may have to scale back their tax cut and find more bucks for education and the environment

Medicare is where Clinton will have to show some flexibility. He has proposed saving $124 billion through 2002 by cutting payments to doctors and hospitals, while the GOP would shave the program's growth by more than $270 billion, in part by raising premiums on the elderly. For now, Clinton aides say he'll never support fee increases. One possible compromise: Premiums now are about 31% of the program costs, but they're scheduled to fall to 25%. Canceling that rollback would cut the deficit by an additional $50 billion.

Republicans, meanwhile, want to end the federal entitlement to Medicaid. The White House will accept some cuts to this health-care program for the poor, but it's demanding that Medicaid remain a national program. Lawmakers may keep the entitlement but cap future costs.

ASSUMED SAVINGS. Compromising on economic assumptions could reduce the need for deeper spending cuts by $200 billion or more through 2002. There are two big issues: The first is how fast the economy will grow during the next several years; the second is what to do about inflation adjustments for taxes and Social Security.

If the pols assume that the economy will grow a bit faster than Congress has figured, they could "save" up to $60 billion over seven years. Many Republicans, who see budget-cutting as a means to slash government programs, will resist the change, but some revision in the forecast is likely.

Fiddling with the inflation adjustment is trickier. Reducing cost-of-living increases and tax indexing by a mere 0.5% would narrow the deficit by more than $33 billion in 2002 alone. But that would mean trimming Social Security benefit hikes. And because personal exemptions and the standard deduction automatically increase with inflation, reducing the hike also would amount to a tax increase. Curbing indexing would wipe out 25% of the GOP's tax cut for 2002.

There's no easy way to get a balanced-budget deal by yearend. But budgeteers, normally a pessimistic lot, are confident that an accord can be reached. As with any long-term fiscal blueprint, actual balance may prove elusive for the drafters of the Grand Compromise of '95. But the budget now taking shape promises to get Washington closer to fiscal sanity than it has been for years.

By Howard Gleckman in Washington, with Gail DeGeorge, in Miami, Sandra Dallas in Denver, and bureau reports

FISCAL FLASH POINTS

TAXES Congress wants a $245 billion tax cut over seven years; Clinton backs a $100 billion version. Clinton will accept a reduction in capital-gains taxes, and Republicans will back off a plan to curb a tax credit for the working poor. Both sides favor a tax credit for children. Look for an overall cut of $175 billion.

MEDICARE Over seven years, Republicans would slow Medicare growth by $270 billion, mostly by raising premiums. Clinton would trim the program by $120 billion, but refuses to raise beneficiary costs. Expect some modest premium hikes and budget savings of $175 billion to $200 billion.

CORPORATE WELFARE Except for farm programs, Congress has barely touched corporate-tax and -spending subsidies. Clinton will demand deeper cuts in tax breaks and direct payments to business. Best bet: More sales of the broadcast spectrum and a $40 billion cut in tax goodies for business.

SAFETY NET Congress would end entitlements to welfare, food stamps, and Medicaid. Clinton wavers on welfare but opposes sending Medicaid and food stamps to the states. A final seven-year deal could preserve the federal role but cap spending. Total savings: $150 billion.

POLITICS

RUNNING 'MEDISCARED' IN FLORIDA

Spooked seniors could desert the GOP in '96

House Republican revolutionaries who think their balanced-budget accord will quell grassroots hostility should visit the Beardall Senior Center in Orlando. "I think it's sick what they're doing," snaps Alleen Towns. The retiree, a Democrat, voted last year for her Republican congressman, Bill McCollum. "I won't do that again," she vows. Neither will Betty Campbell of Orlando, a Republican and longtime McCollum backer. "I don't like what Newt's trying to do at all," she fumes.

Just a few miles away, in the land of Mickey Mouse and Grumpy, GOP delegates gathered on Nov. 18 for a much ballyhooed Presidential straw poll. Senate Majority Leader Bob Dole (R-Kan.) won unimpressively with 33% of the tally, beating Senator Phil Gramm (R-Tex.) and former Education Secretary Lamar Alexander. "A year from now," Dole crowed, "we will defeat President Clinton, and we will install in his place a conservative Republican President."

But come next November, when the ballot boxes open for real, the results may not be so comforting. GOP budget-slashing rhetoric has fueled fear in Florida's retirement communities and nursing homes. Elderly voters worry that Republicans will overhaul Medicare and Medicaid just so they can pass along a tax cut to the rich. "Our eventual nominee has an enormous challenge in dealing with that issue," concedes Florida GOP Chairman Tom Slade. "The facts are on our side, but we're getting the stew beat out of us on the emotion."

Florida is key to the GOP's strategy to win back the White House and retain control of the House of Representatives. The Sunshine State has voted Republican in 10 of the past 12 Presidential elections, and 15 of its 23 House members are Republicans. But the state also is home to the highest concentration of seniors in the nation—18% of its population. And while Florida's elderly voter are relatively evenly divided betwee the parties, Democratic strategists ar targeting the state in an attempt t heighten elderly angst.

STRAW POLL: *Despite the hoopla, resentment against the GOP simmer*

The Democrats' propaganda offer sive—dubbed "MediScare" by Republ cans—seems to be resonating. "It's ver important to balance the budget, but should be done with a thought to fai ness," says retired teacher Mercedes M Fox of Lakeland. She fears seniors coul pay the price for tax cuts: "They're no reforming Medicare, they're trying t destroy it." Retired Air Force Colone Jim Coward, a Republican and onetim supporter of the House GOP's Contrac With America, worries that his healt care and military-retirement benefit will be scaled back. "The more New Gingrich mouths off," he says, "the les enchanted I am."

SHARED SACRIFICE? There are plent more disenchanted: In a BUSINES WEEK/Harris Poll, 43% of respondent aged 50 and older said Gingrich wa doing a "poor" job—double the rate o younger people. Republican analysts in sist such animosity will fade when th GOP campaign machine roars into hig gear next year. "We've got to wage th [battle] over the importance of balancin the budget for our children and ou grandchildren," says Dole campaig strategist William Lacy. "When that done, it will end up a huge political plu for the Republican Party."

GOP strategists hope President Clinto will help defuse the incipient revolt b agreeing to less radical changes in Medicare. If not, the party must convinc elderly voters that theirs is a share sacrifice. Dory Olsen of Key Biscayn is ready to do her part. "It has to b done," the Republican retiree says. Bu former Colonel Coward is so upset abou the GOP tax cuts that he says he ma vote Democratic in '96. A few more lik him, and Florida could send the GOP Presidential hopeful into retirement.

By Richard S. Dunham in Orland with Bob Andelman in Clearwater, Fl

SENIOR PRIORITIES

Do you agree or disagree that the federal government should guarantee...

	A Social Security pension?	*Some level of health care?*	*Nursing-home care?*
AGREE STRONGLY	75%	59%	49%
AGREE SOMEWHAT	16%	23%	29%
DISAGREE SOMEWHAT	5%	11%	14%
DISAGREE STRONGLY	3%	6%	8%
NOT SURE/REFUSED	1%	1%	0%

342 respondents aged 50 and over included in a survey of 1,007 adults conducted Nov. 2–6, 1995, for BUSINESS WEEK by Louis Harris & Associates Inc.

COMMENTARY

By Paul Magnusson

NAH, BILL, WHY DON'T YOU SEE *ACE VENTURA*

Hollywood loves happy endings, right? Maybe that's why *The American President* ends so abruptly. In the hit movie, the credits roll just as President Andy Shepherd (Michael Douglas) wins back his leftist-lobbyist girlfriend (Annette Bening).

All Shepherd has to do to get her back is introduce a bill to outlaw all assault weapons and to support legislation that would stop global warming by crippling the American automobile industry. The music swells as the President heads out the door to begin his reelection campaign. The message: Politics is pretty simple, actually. Just hold dear to your principles, do what's right, and the American people will reward you. You'll even get the girl.

This is one charming love story. But don't go trying to make a political primer out of it. If the movie had run 10 minutes longer, vengeful voters in Texas and Detroit would have set fire to the President's campaign headquarters, Congress would have buried both bills, and the lobbyist girlfriend would have gone to work for the Poisonous Sludge Manufacturers Assn. for a seven-figure contract.

Nor should President Clinton pay too much attention. Hollywood evidently fears that Clinton has been playing against type lately, abandoning his liberalism, negotiating spending cuts with conservatives, and forgetting that big inaugural gala that the movie industry threw for him on the Mall. No leading-man material there. Bring back the man from Hope!

FLASHES OF REALISM. President Shepherd is obviously meant to be Bill Clinton—except that he is a lonely widower. Democrat Shepherd has a daughter Chelsea's age, never served in the military, and is surrounded by young, workaholic aides who forget that it's Christmas unless they get a memo reminding them.

Then there's the White House press corps, always more concerned with "the character issue" (sex) than with foreign policy details. Oh, and President Shepherd is being challenged for his job by the cranky old Republican Senate Minority Leader, Bob Rumson (Richard Dreyfuss).

At first, the scenario seems plausible. The President runs into lobbyist Sydney Ellen Wade at the White House, woos her, and wins her.

MYTH In *The American President,* Michael Douglas sticks to his principles and ignores polls. That would get Clinton a ticket to Hope.

Along the way, he promises to support her environmental bill if she can persuade 24 representatives to go along. But when the President sees the opportunity to gather more votes from Detroit representatives for his anticrime bill, he dumps the environmental legislation cold. He's moving to the center, you see. Being political. Bad President! "Government is choosing, government is prioritizing," Shepherd explains in a rush of realism.

The scenes inside the White House look plausible, too. But how do you explain the following: When the lobbyist's boss finds out she's dating the President, he warns her that it's a conflict of interest that could cost her a job and a career. Too much access to the President and his staff? Yeah, sure.

Then there's the leadership sermon. "People want leadership," an aide explains. "And in the absence of genuine leadership, they'll listen to anyone who steps up to the microphone." The problem is, director Rob Reiner defines leadership as taking unpopular positions and ignoring polls. So, ultimately, does President Shepherd. He gives his daughter a history book on the Constitution, explaining: "It's exciting stuff." But even he ultimately misses the message that the Constitution contains so many checks and balances on politicians that it's impossible to operate without public support and compromise.

BAD ADVICE. Actually, it falls to the conniving Rumson to get closest to the truth. "Voters aren't interested in our plan to achieve economic growth," he tells his aides. In fact, voters do like to be reassured that politicians have plans. But it's the partisan squabbling and the venomous personal attacks that precede the eventual dealmaking that the public doesn't appreciate. Like it or not, politics is messy and ugly. From Hollywood's perspective, politics can even seem un-American. But losing on principle doesn't hold much appeal for politicians, either.

If director Reiner was intent on preserving the happy Hollywood ending, he was right to end his movie just when he did. But if he was trying to send a message to Clinton to stop his relentless polltaking and wind-testing, he's missing the point. Clinton's popularity is rising precisely because he has been following public opinion—particularly during the budget impasse. If President Clinton tries to heed Hollywood's advice, he'll soon be headed out of town.

Magnusson has followed the careers of four Presidents.

DEALS

BOEING AND McDONNELL: WILL IT FLY?

A defense-biz merger is on the table–but any linkup will be hard

In recent weeks, Boeing Co. and McDonnell Douglas Corp. have been sniping at each other like two pilots in a dogfight. In fiercely competitive bidding, McDonnell in mid-October bested Boeing on a $1 billion order from upstart ValuJet Airlines Inc. with its new 100-seat MD-95. Then, on Nov. 3, McDonnell convinced the Pentagon that its once troubled C-17 transport plane was back on track and won an $18 billion order, topping a Boeing bid. But behind the scenes, sources say that the fierce rivals have been discussing a truce—one that ranges from linking their military units to merging the two companies altogether.

There is powerful logic to a combination. Boeing, with just 1% of Pentagon contracts, is an also-ran in defense. Adding its military business to that of No. 2 McDonnell would create the U.S.'s top military supplier, ahead of recently merged Lockheed Martin Corp. McDonnell's reviving but still struggling commercial-airliner business, meanwhile, would get a boost that would ensure its survival. Together, the two companies would have estimated 1995 sales of $34 billion, figures analysts Cowen & Co. "A merger would give each of the two parties a way to deal with a chronic weakness," says one McDonnell veteran.

BITS & PIECES. The challenges to a large-scale deal are sobering. They include antitrust concerns about combining commercial-plane units that together have 70% of the world's backlog of plane orders, deep cultural divides between the rivals, and labor-union fears of massive layoffs. Neither Boeing nor McDonnell will comment.

Those obstacles, say bankers familiar with the talks, mean that any eventual deal is more likely to focus solely on a combination of the two companies' military and space units. Each company has made clear its interest in expanding its helicopter, missile, space station, and rocket businesses. Industry sources say that in the past year, McDonnell has looked seriously at buying United Technologies Corp.'s Sikorsky Aircraft helicopter unit, while Boeing eyed Textron Inc.'s Bell Helicopter unit. If Boeing and McDonnell don't get together, bankers expect them to link with others.

Still, structuring even a limited Boeing-McDonnell defense deal could be tricky. McDonnell, with estimated 1995 military and government sales of $10.1 billion, would dominate Boeing, which has about half that amount. But since Boeing sees synergy between commercial and military technology, it is unlikely to sell off its military unit. Rather, most bankers foresee joint ventures or swaps of units. Analyst Cai von Rumohr of Cowen, which is not involved in any talks, says one plausible outcome is that McDonnell, which makes Apache helicopters, will buy Boeing's Comanche and Chinook products while selling to the Seattle company its own missile and space operations.

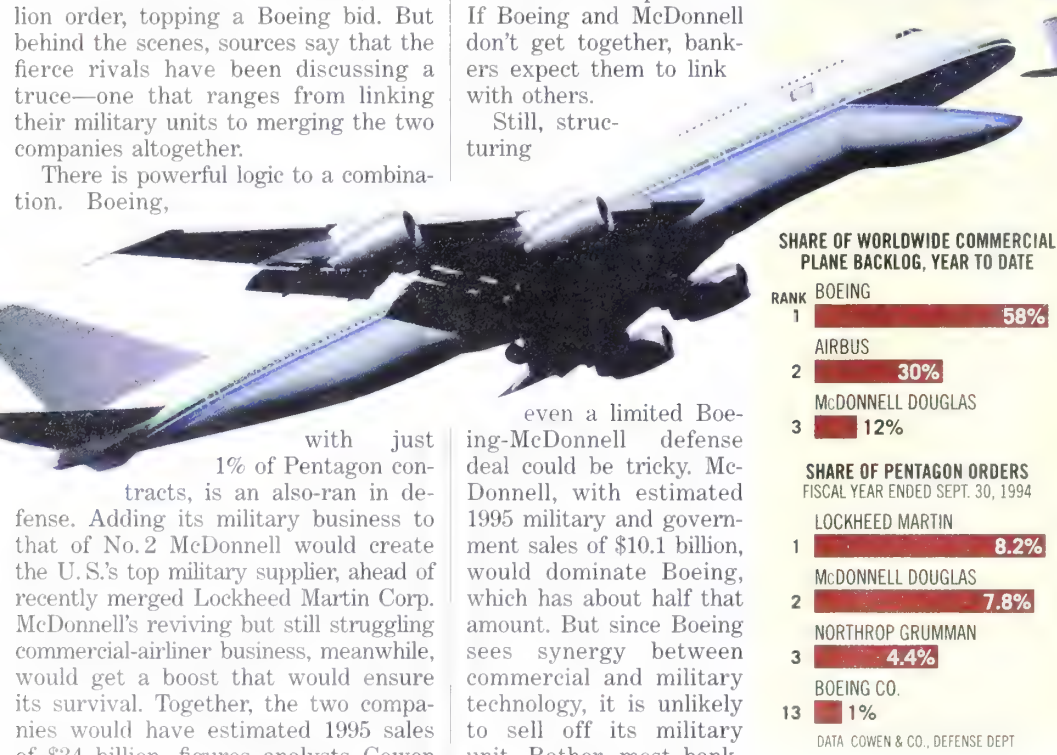
Nevertheless, a broader deal isn't entirely out of the question, say antitrust experts. Boeing and McDonnell executives could argue that a new McBoeing would be more effective in global markets against Europe's Airbus Industrie, Boeing's main rival, plus potential new competitors that are expected to sprou up in Asia. That reasoning finds favo with suppliers to both companies. "T the extent a deal makes a more poten force globally, it's good for suppliers, says David W. Schroeder, vice-presiden for W. H. Brady Co., which sells labelin products to both companies. Even Euro pean regulators might not object. "Cus tomers will still play off Airbus agains Boeing to drive down prices," says European Commission official.

PINK SLIPS? The toughest obstacle migh be trying to cut back McDonnell Doug las' plane operations, which now, produc for product, overlap with Boeing's. An the specter of massive job losses at ei ther company, afte tens of thousands o employees already hav been laid off in recen years, would undoubt edly bring on the wrat of politicians and unio leaders. McDonnell al ready has been aggres sively outsourcing pro duction in the U. S. an overseas—precisely th issue that prompte a six-week strike a Boeing that was onl tentatively settled o Nov. 19.

If the wide array o merger issues can b resolved, any sort o deal would be a fittin legacy for the manag ers of both Boein and McDonnell. Boein Chairman and CE Frank A. Schront plans to retire in a yea and is expected to turn the reins over t Philip M. Condit and a new team of ex ecs who have been striving to brea down Boeing's hierarchical structure. A McDonnell, CEO Harry C. Stonecipher 59, the first non-McDonnell family mem ber to run the company, has alread achieved two key goals—getting the C 17 on track and keeping McDonnell' commercial-plane operation aloft. Now the two companies may have to learn t live together—or with someone else.

By Richard A. Melcher in Chicago with Catherine Yang in Washington Seanna Browder in Seattle, and bureau reports

WHO'S GOT WHAT IN WHICH MARKET



HE BABY BELL N JERRY LEVIN'S SOUP

S West is complicating his dream for Time Warner

erald M. Levin is on a tear. In September, Time Warner Inc.'s chairman announced the $7.5 billion acsition of Turner Broadcasting System . Then, in mid-November as part of a restructuring, he folded Time Warr's chaotic music business together h its powerful movie studio. Along way he ousted Michael J. Fuchs, longtime chairman of Home Box Of- Inc. and briefly the head of Warner isic Group Inc. Finally, on Nov. 20, rd spread that Levin would like &T to invest billions in his sprawling ple-TV systems.

All of which says that Le- finally is putting his imnt on the company he took arge of three years ago. His ion: a global media colossus th three main operations conting of entertainment, news, d telecommunications. Evenally, entertainment would inde the company's studios, a w of cable channels to display eir productions, and a collection record labels. Telecom would ofr cable TV, phone service, and ternet access over broadband ble. News would feature CNN, IN spin-offs, and an array of agazines. Divisions would coopate. Wall Street would be hap-. The stock would go up.

HAPPY INVESTORS. But there a problem: U S West Inc. Not unting the government, which omises to spend the next six onths picking at the Turner al with a magnifying glass d tweezers, U S West early is Levin's biggest adache. By virtue of a $2.5 billion inestment in 1993, the regional phone mpany owns 25.5% of Time Warner ntertainment (TWE), which holds the mpany's movie studio, HBO, and most of s cable systems. Time Warner Inc. WX), meanwhile, owns music, magaes, and a little cable. Levin last Februy promised Wall Street he would simify the structure. Since then, though, S West has refused to go along.

That hasn't made investors happy. he street's biggest beef with Time Varner is its huge dependence on the apital-intensive, government-regulated able business. Levin's solution is to shelter Time Warner's "content assets" from its cable properties by moving the studio and HBO from TWE to TWX. Then Turner would be folded into TWX. Finally, he could put all the cable assets in a discrete self-financing entity.

Such a reorganization would allow Levin to push his cable business into the expensive new worlds of telephone service and high-speed data transfer without roiling investors. Talks between Levin and AT&T have never really heated up. It's not even clear Justice would let AT&T invest in a partnership with a Baby Bell. But as a partner, AT&T could help in several ways. First, as Time Warner branches into phone service, it could use a powerful brand name like AT&T's. It could also use money for fiber upgrades and debt reduction. AT&T, for its part, wants to bypass local telephone monopolies and enter the market for local calling via cable systems.

That's all fine, but look at it from U S West's perspective. The Baby Bell's TWE investment has nearly doubled in value during the past two years, largely on the strength of the studio and HBO. So why trade out of those stakes? Moreover, U S West considers AT&T a potential competitor in its local telephone markets, located in the Mountain States. If it is going to participate in a joint venture with AT&T in the East, analysts say, it wants to extract concessions from AT&T in the West. U S West denies it has this motive.

If all this sounds complicated, it is. But it all comes down to a game of leverage. That's why U S West turned up the heat by suing Time Warner to block Levin's cherished Turner deal. The Baby Bell contends that by purchasing the Turner entertainment assets, TWX would be competing with TWE, possibly to the detriment of U S West. Time Warner countersued, saying that U S West has blocked TWE from cutting a deal with AT&T. Court dates are scheuled for March.

U S West was causing headaches for Levin even before the Turner deal surfaced. Last spring, faced with Levin's plans to move HBO and the movie studio from TWE to TWX, the Baby Bell demanded 51% ownership of all the cable systems. Time Warner's offers included a 50-50 joint venture in which Time Warner executives would manage the cable business and U S West executives would manage the telephone business. That would last until a manager could be groomed with expertise in both businesses. If the venture were to take on a minority partner such as AT&T, the ownership of both Time Warner and U S West would be diluted in equal portions.

The two sides came close. Then the Turner deal cropped up. Now, Time Warner wants to reach some kind of settlement with its cranky partner before proceeding with Turner or more talks with AT&T. "I expect there will still be a restructuring where we're involved with each other," says a top Time executive. Given U S West's blocking power, it won't come cheap.

By Michael Oneal, with Catherine Arnst in New York and Peter Burrows in San Francisco

CAN'T THEY ALL JUST GET ALONG?

Participants in the corporate dance around Time Warner's cable unit

TIME WARNER It needs partners for three reasons: To provide technical expertise, to supply a brand name and marketing clout, and to provide capital for broadband upgrades. AT&T would bring all three.

AT&T Ma Bell wants to offer a package of local, long-distance, and cable services. A stake in Time Warner cable would clear the path.

U S WEST With its 25% stake in Time Warner, it can offer cable services as a defense against cable companies gearing up to enter the local phone market. Could it deal with potential rival AT&T as a partner?

LABOR

CAUGHT IN CAT'S CLAWS

The UAW may have to accept terms it went on strike to avoid

For almost 18 months now, some 9,000 United Auto Workers have futilely manned picket lines at Caterpillar Inc. By any calculation, the strike has been a dismal failure. The company has posted record profits, productivity has soared, and nearly a third of the union's members have returned to work. The final insult is likely to come on Nov. 28, when management plans to give strikers a new proposal that insiders say is almost exactly the same as the one rejected by the UAW in 1992. Given their gloomy prospects, union members may have little choice but to accept it.

If they do, it will be a devastating blow to the UAW. Caterpillar will have forced the union to agree to items UAW leaders once swore to oppose, company sources say, including lower wages for new hires, flexible work rules, and a new, managed-care health-care plan (table). In return, Cat may provide a generous early-retirement plan. Neither side will comment officially, but make no mistake: The company has won. "The UAW simply has to cut its losses," says management-labor attorney and former National Labor Relations Board member John Raudabaugh.

The reverberations will be felt well beyond Caterpillar. The closely watched battle has taught Corporate America a lesson: Nearly anyone can be replaced, even highly skilled manufacturing workers supported by a $1 billion strike fund and the country's most powerful union. The Cat denouement also is a forceful reminder of the obstacles faced by AFL-CIO President John J. Sweeney, who swept into office last month with vows to revive organized labor. Says Wharton School management professor Peter Capelli: "Caterpillar shows that efforts to rejuvenate the labor movement will be very difficult."

Many outsiders doubted that Caterpillar could hold out for long when its 13,500 unionized factory hands walked off the job in June, 1994. Conventional wisdom—even among executives of other large, unionized manufacturers—held that Cat's experienced welders and machinists simply couldn't be replaced en masse. But Cat adroitly shifted some production overseas and used temporary-help agencies to tap into a national labor pool of skilled workers. The tactics allowed the company to produce plenty of bulldozers and earthmovers to meet demand. Indeed, Cat's revenues will jump by 10%, to $15.2 billion, this year, while net income will soar 20%, to $1.15 billion, predicts Sanford C. Bernstein & Co. analyst Lisa Shalett.

The dispute is close to being settled largely because of leadership shifts at the UAW. The union, under chief negotiator Bill J. Casstevens, had battled C since 1991. But this June, Casstever retired, and Stephen P. Yokich wa elected as the UAW's president. Yoki set out to end the disastrous strike.

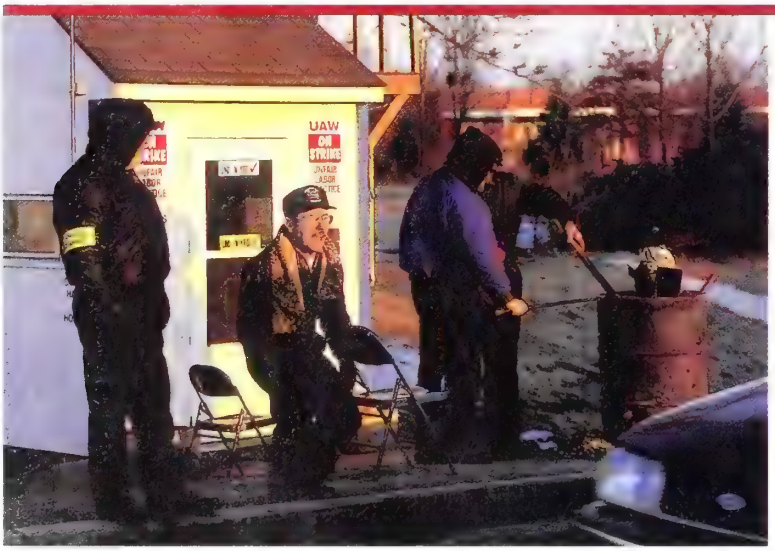
If he is to succeed, his members w have to swallow their pride. Strike have vehemently opposed many item on which they now will be asked to vo yes. Caterpillar's plan to impose flexib schedules, for instance, will allow th company to work employees more tha eight hours daily and on weekends wit out paying overtime, provided worke don't log more than 40 hours a week.

GAG RULE. The two-tier wage syste would start new hires at Caterpillar parts facilities at wages up to 40% lov er than their counterparts. The pr posed pact even may prohibit the on ubiquitous anticompany messages th UAW members used to print on the work clothes.

The UAW is getting little in retur The company may offer an early-retire ment package for workers with 28 yea or more of experience, but even tha will work to Caterpillar's advantag Productivity gains now allow the comp ny to run with nearly 2,000 fewer wor ers. A generous buyout would allow Ca to retain the 1,100 workers it has hire during the strike and not be overstaffe

Negotiators still have some thorn issues to hash out. For instance, th UAW is insisting that picket-line crosser shouldn't vote on the contract. Cat di agrees. When everything else is settle the UAW then must find a way to se workers on a deal that strikers probabl could have had 18 months ago. Bot sides seem to be counting on exhaustio to provide enough votes to end one labor's longest travails.

By Kevin Kelly in Chicag



STRIKE ZONE: *Cat's profits are up 20%*

UNION ON THE RUN

Terms of the contract Caterpillar and the UAW plan to unveil on Nov. 28:

LENGTH It may be a six-year deal rather than the typical three-year contract

FLEX SCHEDULES The company can schedule work over weekends without paying overtime

HEALTH CARE Cat has won the right to move employees to a managed-care plan

WAGES The UAW has accepted a two-tier wage for new hires

EARLY RETIREMENT An early-retirement program will allow disgruntled union members a way to leave gracefully

DATA: BUSINESS WEEK

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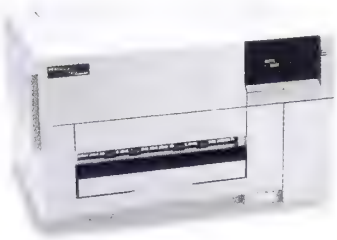

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STRATEGIES

THE MGM LION IS...WELL, GROWLING AGAIN

As Crédit Lyonnais puts it on the block, the studio starts to stir

The fifth floor of an office building off the Santa Monica freeway is a long way from Hollywood's epicenter. Still, if you're Metro-Goldwyn-Mayer Inc., which has spent more time on the ropes than the star of its 1976 film *Rocky*, it's prudent to cut corners on your headquarters. Now, after repeatedly fending off bankruptcy, MGM finds itself in the rare position of having back-to-back hits. The studio sold $26 million worth of tickets to its 17th James Bond flick, *Goldeneye*, in mid-November, its biggest weekend ever. This heady opening on top of the success of the gangster comedy *Get Shorty* came none too soon for MGM and its struggling parent, Crédit Lyonnais, the French bank.

MANCUSO: *Seeking backers to make a bid when MGM is sold in '97*

Little wonder, then, that they're cheering back in Paris. Under U.S. banking laws restricting how long banks can hold nonbank companies, Crédit Lyonnais has until May, 1997, to sell MGM, which runs the MGM and United Artists Pictures Inc. studios. A couple of hits should make a sale easier for the bank, which foreclosed on the studio in 1992 after Italian financier Giancarlo Parretti loaded it with more than $2 billion in debt. On November 21 the Crédit Lyonnais unit that controls MGM hired Lazard Freres and Co. to help it unload the studio.

FINDING FRIENDS. Former Paramount Pictures Chairman Frank G. Mancuso, who has headed MGM since just after the foreclosure, has a lot riding on the outcome. Although his contract with the bank expires if the studio is sold, MGM sources say Mancuso is hoping to find a partner with whom to bid for control. Among companies said to be interested in MGM are Polygram, Bertelsmann, and Tele-Communications.

Despite recent gains, MGM remains a money-loser. Boosting production to as many as 20 films a year forced it to dig deeply into its $650 million in credit lines. Moreover, financier Kirk Kerkorian, who owned MGM in the 1970s and 1980s, sold *Gone With The Wind*, *The Wizard of Oz*, and much of the rest of MGM's library to Ted Turner. The studio still has rights to more than 1,500 films, but that barely covers overhead.

As a result, Mancuso had to cut corners to restart production. Early on, the studio dug through Hollywood's discard heap to find such films as last year's surprise hi *Stargate*, produced by France's Can Plus and passed on by other U.S. stud os. It picked up *Get Shorty* when Son Pictures Entertainment nixed it. An partners helped make other films, in cluding *Mulholland Falls*, a drama sta ring Nick Nolte and Melanie Griffit scheduled for release this spring.

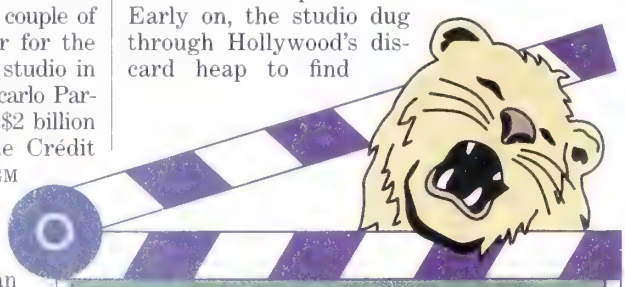
One area where MGM hasn't skimpe is promotion. The studi spent heavily to advertis *Species*, a sci-fi flick re leased in July that grosse a surprising $50 millio And in September, in a unsuccessful effort to boos *Showgirls*, MGM shippe 250,000 eight-minute cas settes of excerpts from th sex-filled film to the adu sections of video stores.

WEAK BUZZ. But the studi put its biggest punch be hind *Goldeneye*, anteing u an estimated $17 million t promote the Pierce Bros nan film with splashy T and print spots and a 30 minute infomercial. "Th idea is to get people t know that you're coming," says Manc so. "Sometimes that takes being as cre tive with your marketing as with mak ing the film."

For all of its maneuvering, MGM ha just 5.4% of Hollywood's total box offic this year. And it has had its share o flops, including *Tank Girl* and *Fluke* Plus, the buzz on some of its upcomin films, including the western *Wil Bill*, starring Jeff Bridges and Elle Barkin, isn't good. "They've had good run of late," says John Krie president of Exhibitor Relations Co which analyzes films for theate chains. "But they are sure not ou of the woods yet."

For now, MGM plans to keep th films coming until next year, whe foreign and video revenues from *G Shorty*, among others, will help show an operating profit for the fir time since 1986. Upcoming offe ings, including such high-profile flic as *Birds of a Feather*, an adaptatio of *La Cage aux Folles* starrin Robin Williams, should help. Plu the studio has signed John Travolt and Sharon Stone for *The Lad Takes an Ace*, a comedy from th creators of TV's *Cheers*. All tha plus a *Goldeneye*, may finally pu the MGM lion front and center agai

By Ronald Grover in Los An geles, with Mia Trinephi in Par



MIXED REVIEWS

The studio's spotty record and paltry number of releases are the big reason it ranks eighth in Hollywood, with a 5.4% share of the market

Movie	Box Office Return Millions	Movie	Box Office Return Millions
WINNERS		LOSERS	
GOLDENEYE*	$26	HACKERS	$7.6
GET SHORTY*	$57	TANK GIRL	$4
SPECIES	$60	FLUKE	$3.8

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COMPENSATION

BENEFITS ARE BEING PECKED TO DEATH

Little by little, employers erode pension and health plans

The economy is growing. Corporate profits are up. Wages are beginning to rise a bit. So why are so many Americans feeling so pinched?

The answer may lie less in paychecks than in pension plans and health insurance. As employers struggle to stay competitive, they're chipping away at benefits as never before. "A lot of companies simply no longer want to pay benefits," says Paul H. Tobias, chairman of the Cincinnati-based National Employee Rights Institute.

Consider paid holidays. Fifteen years ago, virtually every medium and large private U.S. employer offered at least one paid holiday per year. Today, that has slipped to only about 90%, according to the Employee Benefit Research Institute. In 1980, 95% of such employers offered some kind of health insurance; now, just 80% do so (chart).

Much of the backsliding stems from the enormous change in work patterns and types of employment growth over the past few decades. With more workers changing jobs more often, say consultants, pension vesting and vacation time based on seniority isn't growing as fast as in more stable times. More important, the surge in service-sector jobs such as retailing means that many new jobs offer comparatively scant benefits.

As ever, benefits figure prominently in labor negotiations. When 32,500 workers struck Boeing Co. for 47 days starting Oct. 6, deep proposed cuts in health benefits were among their top grievances. Says union leader Bill Johnson: "Why should a Boeing worker lose $914 a year to health cuts when the company has made $6.6 billion since 1990?" Under terms of a proposed settlement, workers and their families still would be forced to shoulder a hefty increase in deductibles.

Unions are likely to feel more pain as employers shift to workers more of the tab for escalatin health-care costs Owens-Corning Fi berglas Corp. is re ducing the cash cos of its retirement ben efits by 20%. How It will cut its matc of employee contribu tions to 35¢ per dol lar from 50¢, the add a variable sun based on profit-shar ing. The compan also is moving to a cafeteria plan tha limits the value of benefits but allow workers to select between more healt coverage, say, and more vacation days

PAIN IN THE AISLES
The surge of jobs in the service sector means more employees get fewer benefits

Such innovations are applauded b many experts for giving employee more options to tailor benefits to thei needs. But others worry that such "caf eteria plans" offer less even thoug "employees feel they are getting mor because they can choose," says Fre Getz, Chicago manager for Robert Hal International, an employment agency.

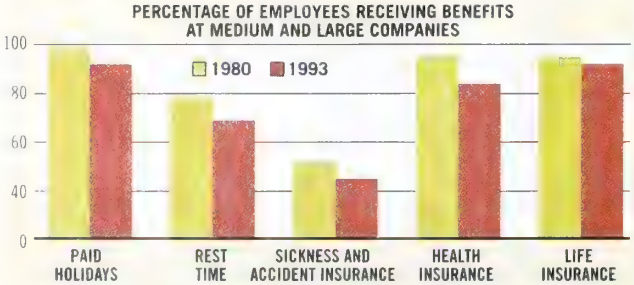
CHANGING LANDSCAPE. The growing clas of low-wage service workers may b hard-pressed to pay for what benefit are available. At Wal-Mart Stores Inc only 41% of its workforce actually go health insurance through the company i 1993. Those who do pay at least a $60-a month family-plan premium, with a $1,00 deductible. "If Wal-Mart isn't providin decent benefits, how can you expec smaller retailers to do better?" says Gre Denier, a spokesperson for the 1.4 millio member United Food & Commercia Workers Union. Wal-Mart says it hasn' raised premiums in three years. "We pro vide great benefits," says a spokesman.

Certainly, some large corporations ar expanding benefits. Mattel Inc. recentl added full vision care to a list of perk that includes a state-of-the-art healt club at corporate headquarters. Harri Corp. in Melbourne, Fla., now offers fre mammograms and has dropped co-pay ments in half, to $75, for such expensiv procedures as magnetic reso nance imaging.

Critics, however, point ou that such large corporation are where domestic employ ment growth is most sluggish And smaller companies typi cally have less generous bene fits—or none at all. Indeed, i could be that the great Amer ican benefits package is becom ing as outdated as the fre Thanksgiving turkey.

By Eric Schine in Lo Angeles, with bureau report

CHRISTMAS WITHOUT PAY?
PERCENTAGE OF EMPLOYEES RECEIVING BENEFITS AT MEDIUM AND LARGE COMPANIES



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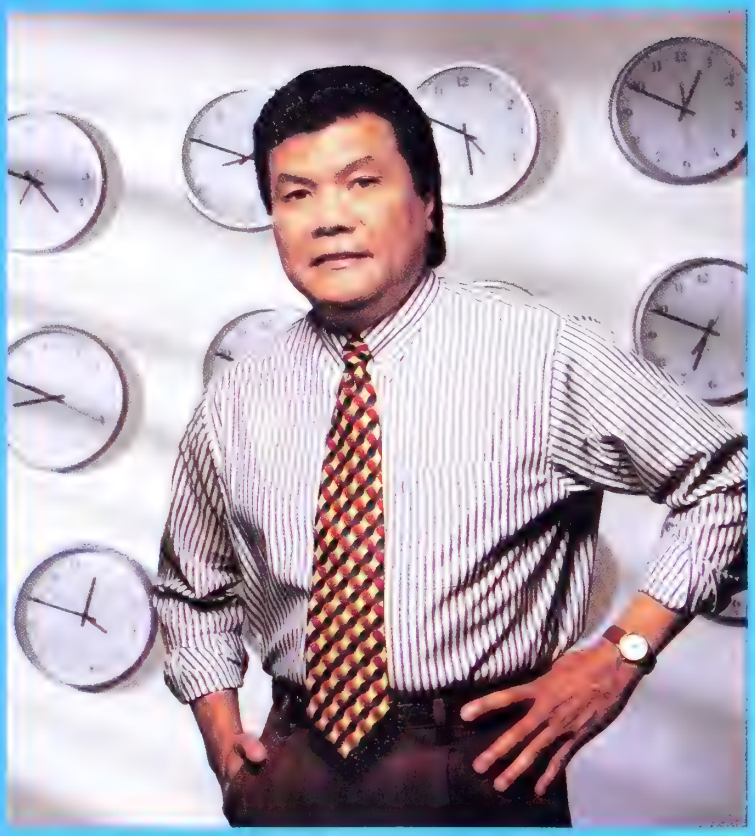

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Mike Tigson, Logistics Planning Manager
Philips Semiconductors, Sunnyvale, CA

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LEGAL PRECEDENTS

LAW AND ORDER IN CYBERSPACE?

Fury over Net junk mail brings out the lawyers

John J. Brogan is sort of an Internet pioneer. It's not just that he is president of ReplyNet Inc., a Gaithersburg (Md.) company that distributes promotional business information via electronic mail. Brogan also is believed to be the first commercial Internet user to invoke intellectual-property laws to fight spamming, the widely despised practice of sending electronic junk mail.

Brogan says he was outraged when he learned an ad had been electronically mailed to more than 170,000 people—using ReplyNet's return address. His fury was shared: Recipients "flamed" ReplyNet with electronic hate mail for the "netiquette" violation. Brogan claims the ad came from Promo Enterprises, a self-proclaimed "bulk E-mail" company in Philadelphia that he says forged his online identity. In a Nov. 15 letter, Brogan threatened to sue for trademark infringement and misappropriation of identity. "This is something we won't stand for," fumes Brogan, who wants Promo to pay $5 for each person spammed. "Our image has been tarnished."

ONUS ON THE CONSUMER? Promo President Sanford A. Wallace denies that his seven-year-old company engaged in spamming or infringed on the ReplyNet name. He contends that if there was a mailing problem, it was inadvertent. "It's very easy to have names and addresses confused," he says. "All it takes is one typo."

The fracas underscores the hassle that unwelcome online solicitations are becoming. The reason: E-mail addresses are easy to identify, and electronic advertising requires minimal overhead. "The Internet could literally be buried in a flurry of electronic junk mail," warns Marc Rotenberg, director of the Electronic Privacy Information Center. That's why some legal experts say ReplyNet's offensive is so important. "This is one of the first signs that lawyers and sheriffs are coming to town," says Brogan's counsel, Stewart Baker.

REPLYNET'S BROGAN: *"Our image has been tarnished"*

The government is right behind them. On Nov. 20, the Federal Trade Commission held one of a series of hearings on regulating unfair business practices on the Net. "There must be controls," says Rotenberg. "The question is: What is the best legal approach to protect privacy and respect First Amendment values?"

Spam.ming *v:* (1995) The practice of sending unwanted junk mail, usually product advertisements, to a large number of people via electronic mail or the Internet

An answer may come from a closely watched case involving *U. S. News & World Report*. Ram Avrahami, a subscriber, has filed suit in Arlington, Va., accusing the magazine of selling his name to the Smithsonian Institution without getting his permission. His beef: That everyone has a property interest in his or her identity and that to profit from it without approval is an illegal invasion of privacy. *U. S. News* argues that the onus is on the consumer to opt out of such solicitations.

Either way, the case could have broad implications for business. Companies have begun selling electronic-mail addresses to advertisers from lists compiled of visitors to World Wide Web and other sites. They should beware: Clashes between free speech and privacy appear headed out of cyberspace and into court.

By Linda Himelstein in New York

PEOPLE

GIDEON'S NEW TRUMPET

The man who built Gartner Group becomes its rival

Can Gideon Gartner do it again? That's the question in computer-consulting circles. Gartner has raised more than $15 million in a private placement to fund his new firm, Giga Information Group, which plans to sell expert analysis of information-technology trends and products. It's a hot field these days, but the move puts Gartner on a collision course with the firm he co-founded in 1979: Gartner Group Inc., the business' $229 million-a-year leader.

Giga, Gartner says, will run on an "entirely new business model." He is vague on specifics but says Giga will expand through acquisitions and hints at extensive use of the Internet and Lotus Notes networks to deliver services electronically. Gartner Group has succeeded mainly by selling subscriptions to printed reports. Meta Group Inc., at $30 million in revenues its biggest rival, emphasizes phone access to its analysts.

GARTNER: *Giga will serve clients via the Internet and Lotus Notes*

Gideon Gartner's risks have paid off before. He left Oppenheimer & Co. as Wall Street's No. 1 computer analyst to found Gartner Group. In '88, he sold it to Saatchi & Saatchi Advertising Worldwide for $94 million. When the British conglomerate ran into financial trouble, Gartner led a 1990 leveraged buyout. But soon after, a board controlled by Dun & Bradstreet Corp. installed new managers. Stripped of power, Gartner walked.

Why another startup when he could be practicing classical piano at home in Aspen, Colo., St. Thomas, V. I., or Westport, Conn.? "I just got into this [idea] totally. I don't know if it's ego-fulfillment, to show if I can do it again," he says. Gartner plans to stick to his strengths: research, strategy, new markets, and chatting up customers. Ex-colleagues say he is a brilliant presenter but a poor manager. So Gartner is hiring a COO who will be groomed to take over as CEO. Good start for a consultant: taking wise counsel.

By John W. Verity in New York

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Select *Investors*	**19.0%**	**11.7%**	**13.7%**	**16.6%** *(6/30/71)***
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EDITED BY KEITH H. HAMMONDS

LOTS OF ROOM AT C&W'S TOP

FIRST, IT WAS THE ROYAL family. Now, another British institution has been wracked by an embarrassing internal feud. On Nov. 21, the fed-up board of 150-year-old Cable & Wireless accepted the resignations of the company's two top officers and began a search for replacements. Chairman Lord Young and Chief Executive James Ross had been at each other's throats for months, sometimes even pursuing opposing strategies. Young's attempt to expand in the Middle East by buying shares in Israel's Bezeq phone company conflicted with Ross's efforts to concentrate on the U.S. by forming a joint venture with Baby Bell Nynex. Board members met for a day and a half, then took action when neither man would step down.

SWITCHING SIDES AT RJR

IS FREDERICK ZUCKERMAN RJR Nabisco's version of Jerry York? York, Chrysler's onetime chief financial officer, has become the well-paid front man for would-be Chrysler raider Kirk Kerkorian. Now Zuckerman, former treasurer of RJR Nabisco and a York protégé both at Chrysler and IBM, has signed on with that company's tormentors, Bennett LeBow and Carl Icahn. Zuckerman gets $30,000 for signing on, and $120,000 a year in consulting fees. He is one of nine new directors—all committed to an immediate breakup of the company—proposed for RJR in a Nov. 20 Securities & Exchange Commission filing by LeBow. RJR filed suit the same day, alleging the LeBow group violated securities laws.

AN IMMIGRATION LAW ISN'T SO LEGAL

A YEAR AGO, CALIFORNIA voters overwhelmingly endorsed Proposition 187 on immigration. But on Nov. 20, following a prolonged legal battle, a federal district judge in Los Angeles ruled much of the controversial legislation illegal. Among key provisions thrown out: barring illegal immigrants from federally funded health care, social services, and public schools. U.S. District Judge Mariana Pfaelzer also rejected a provision requiring teachers and social service workers to report suspected illegal immigrants to the Immigration & Naturalization Service. Pfaelzer said such rules contradicted federal law.

CLOSING BELL

GLOSSY FINISH

IPO madness persists. On Nov. 17, Estée Lauder, selling 13% of its stock, saw its shares soar 33% from the offering price of $26, closing at $34.50. Demand had induced it to increase the shares it sold to 15.3 million from 13.9 million, and to lift the price by $4 a share. "The company is... not going to be a flash in the pan," says David Menlow, president of IPO Financial Network. Neither, apparently, is Boston Beer: Its new shares, priced at $20, closed at $28 on Nov. 21.

HEADLINER: KIRK KERKORIAN

IF YOU CAN ASSEMBLE A BETTER BOARD . . .

He's not in the driver's seat, but Kirk Kerkorian surely is helping to steer Chrysler. A Nov. 20 summit between Kerkorian and Chrysler Chairman Robert Eaton included a new face: longtime Chrysler director Robert Lanigan. It marked the first time that Kerkorian and top aide Jerome York could make their case for change at the auto maker to an outside board member.

Kerkorian, owner of a 14% stake in Chrysler, believes he can sway outside directors to do what Eaton won't—share Chrysler's cash hoard with stockholders. Now, Eaton will bring outside directors to meetings with other big investors. That plays into Kerkorian's plan to get York on the board via a proxy fight: The former Chrysler CFO, he believes, will shine next to the current board. Ultimately, Kerkorian wants York and two other independent directors on Chrysler's board; on Nov. 20, he said he wants former Kmart chairman Joseph Antonini to give up his seat. For the moment, the pressure is on Eaton to persuade investors to maintain the status quo.

By Bill Vlasic

FIRST INTERSTATE SNUBS WELLS AGAIN

JUST HOW MUCH MONEY CAN First Interstate turn down? On Nov. 20, the Los Angeles bank rejected Wells Fargo's third hostile offer, sweetened to $141 a share. Chiding Wells for "recklessly pursuing" its bid, CEO William Siart asked shareholders to instead accept First Bank System's offer of $136. In an SEC filing, the bank said its largest shareholder, Kohlberg Kravis Roberts, had reckoned that an "equitable" offer would require Wells to exchange 0.7 of its shares for each FI share—just higher than its current offer of 0.67 shares.

KALEIDA LABS CALLS IT QUITS

NO SURPRISE THAT IBM AND Apple Computer announced on Nov. 17 plans to scrap their Kaleida Labs software joi venture. Almost from th start, engineers had haggle over job responsibilities, ar board members were distrac ed by more important job Conceived in 1991 as part of grand alliance meant to pu giant Microsoft in its plac the venture gained only handful of customers for it Script-X multimedia progran ming language. The re shocker: Taligent, another fa ing IBM-Apple joint ventur also wasn't dropped.

ET CETERA . . .

- The Justice Dept. said Ca vin Klein had not use underaged models in its ad
- An FDA panel recommen ed approval of Olestra, Pro ter & Gamble's fat substitut
- Brown & Williamson sued former exec, the source for 6 *Minutes'* axed tobacco story
- The Beatles' first album i 25 years seemed a certain h for Capitol Records.

HOW REPORTER GEORGE LACY CRACKED A TOP STORY OVER BACON AND EGGS.

6:14 A.M.

Little sleep makes for a big appetite. After a full night of chasing rumors regarding the sale of the city's baseball team, an unfamiliar source delivers even more hearsay.

6:48 A.M.

Another page reveals the name of a certain millionaire with a reputation for playing hardball. It's time for some major-league snooping.

2:07 P.M.

The trail turns cold until the arrival of a hot new tip on the pager. A secret meeting at a small airport ends with handshakes on the runway. Looks like this multi-million dollar rumor is right on the money.

6:02 P.M.

The story leads at six o'clock, making tomorrow's press conference old news. And our reporter the talk of the town.

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led away from a stop. The dispute nt all the way up to Hanenberger, o gave a green light to lower gearing more zip.

A thornier problem is that the Cate- will be built in Opel's sprawling facto- in Rüsselsheim, then shipped to the S. The strong German mark—rough- 1.40 to the dollar, vs. 1.60 when the oject began—means GM will make lit- money: Expenses must be paid in stly marks, but sales will generate ak dollars. Executives privately con- le they are in a bind on exchange es. But they say Cadillac, whose sales ve plummeted 16% this year, desper- ely needs a model that appeals to

AMERICAN STEPCHILD

Opel's luxury Omega (left) was modified–quicker pickup, for one thing–to produce the Cadillac Catera (right), in U.S. showrooms next year for an estimated $32,000

ounger buyers looking for a Euro-style xury car. The Omega was the cheapest ay to get one. It's costing GM less than 100 million, vs. perhaps $1 billion for an l-new Caddy.

Undaunted, GM's global strategy oard approved a plan to make an up- scale Saturn based on Opel's new Vectra model, which was just introduced in Europe at a starting price of $26,000. The sedan would compete with the Honda Accord and the Toyota Camry and would be built on a GM assembly line in Wilmington, Del.

There are hitches, though. The Vectra has steel body panels, while Saturn has plastic doors and fenders, a favorite with U.S. drivers since the flexible plastic resists minor dents and scratches. Thus a Saturnized Vectra would have to be built with plastic panels. Smith says engineers have figured out a solution. But Saturn officials have yet to prove the car can make money, in part because of a costly new Opel engine Saturn wants to use.

Hanenberger still wants Opel engineers to team up with other company technicians to develop a world car with a four-cylinder engine. Opel has the most experience of any GM unit in designing such fuel-efficient cars, which account for half the world's auto sales. Opel also knows how to produce the firm, road-hugging European ride that carmakers around the globe are trying to emulate. In addition, Opel has spearheaded GM's push into Asia and Latin America.

COMPROMISES. Opel won't always take the lead. GM's American engineers will head up most truck and minivan projects, such as the new front-drive minivan due out in both the U.S. and Europe in 1997. Rivals and analysts say the van will be narrower than the model it replaces—the better to fit European roads. The possible drawback: American consumers won't find it roomy enough. "It's just right on the European side, but a tad small in the U.S.," says a top executive at an American competitor.

That sort of compromise has tripped up world-car efforts before. For example, Honda Motor Co.'s redesigned 1990 Accord was a hit in the U.S. but a flop in Japan, where it was considered too big. Similarly, Ford's Mondeo family sedan, introduced in 1993, has sold well in Europe but stalled in the U.S., where it is sold as the Ford Contour and Mercury Mystique. American consumers find the backseat too skimpy and the $16,000 average price tag too hefty.

Hanenberger thinks GM can succeed where other carmakers have failed. Success is crucial for GM. Company executives still must cut billions in costs if they want to revive the sputtering North American operation and free up scarce capital for a drive into Asia. And they must keep coming up with fresh design ideas for all of GM's brands. The talent is there, on both sides of the Atlantic. Turning that talent into profitable enterprise will take lots of patient tinkering.

By David Woodruff
in Rüsselsheim, Germany

GERMANY

THE GOSPEL ACCORDING TO BONN

It's stepping up strong-arm tactics to shape monetary union

It was a wrenching political about-face. On Oct. 25, French President Jacques Chirac flew to Bonn to reassure an impatient German Chancellor Helmut Kohl that the French were committed to European monetary union. The next day Chirac went on television to announce a radical shift in government policy: Cutting France's huge budget deficit, not unemployment, was now his top priority. Two weeks later, French Prime Minister Alain Juppé backed up his President with a package of welfare reforms and other spending cuts.

That Germany would call many of the shots on EMU has never been a secret. But in recent weeks, Bonn and Frankfurt have stepped up their strong-arm tactics. On top of needling the French, scolding the Italians, and muffling complaints at home, Germany has made already strict requirements for membership in monetary union the starting point for a distinctly German vision of European economics and politics.

Bonn's mounting demands clarify the price that Germans will exact for sacrificing the Deutschemark for a new Eurocurrency. If EMU is to go forward as planned in 1999, Germany insists that the resulting union be made in its own image, with a rock-solid currency and conservative monetary policy. And monetary union may be only the beginning. Germany ultimately favors political union for Europe. By setting the terms for EMU, Germany is ensuring that the economics of a political bloc would have a distinctly German stamp. "This is part of a broader objective of a strong move toward political union," confides a central banker involved in monetary union.

But Germany has more immediate reasons to push hard for EMU. Europe's existing money system has caused German business untold grief, as an appreciating mark and competitive devaluations around Europe has eroded its export profits. Indeed, the strong mark is largely responsible for Germany's slowing growth—now estimated at only 1.5% for 1995 (page 29). A stillborn EMU presents another monetary nightmare. If progress seems to falter, investors are likely to drive the mark into the stratosphere. That would nullify all German industry's efforts to boost competitiveness.

So the Germans are playing hardball as never before. German Finance Minister Theo Waigel bluntly let Italy know that thanks to its high deficits and debt, it wouldn't be among the founding members of the single-currency club. And France's capitulation followed a series of communiqués between Bonn and Paris in which German officials expressed anxiety over Chirac's job-creation schemes.

The Germans want to enforce their tight-money rules far beyond 1999. On Nov. 7, Waigel proposed a "stability pact" to govern fiscal policy after EMU starts up. It would require member countries to aim for budget deficits eve lower than the criteria for entrance se by the Maastricht agreement. Countrie that loosened their fiscal grip would fac sanctions or steep fines.

The demands are designed to re assure outsiders and Germans alike tha EMU won't dilute Germany's vaunte monetary and fiscal discipline. Alread investors in the mark are fleeing to th safe Swiss franc to escape an expecte weakening of the German currency. Bu the Germans' real fear is that the won't be able to sell monetary union t their own people. German voters abho the idea of giving up their stable marl

SLOW SWITCH? Officials are so worrie about sentiment at home that they ar trying to keep any opposition quiet. Bur desbank President Hans Tietmeyer pub licly attacked Dresdner Bank chief ecor omist Klaus Friedrich when a commen Friedrich made was misreported to sug gest that the criteria for EMU member ship should be softened. And when inef ficient German savings banks complaine that they couldn't afford to develop th internal systems for a quick transitior the Frankfurt-based European Monetar Institute soothingly proposed stretchin out the switch for up to 3½ years.

Of course, Germany's ability to shap the future will be limited by economi reality. Europe's slowing recovery coul make it impossible even for German to meet the Maastricht criteria in 1999 That already has officials suggesting delay. But German leaders have learne that by dictating tough rules, they ca keep EMU momentum going withou spooking the financial markets. Even i the dream of monetary union is deferre a few more years, it will ultimatel translate into a German kind of reality

By Bill Javetski, with John Temple man, in Frankfurt

HOW GERMANY IS THROWING ITS WEIGHT AROUND

- Finance Minister Waigel raises the hurdle for joining EMU: If members don't keep lowering their deficits after signing on, they face heavy fines.
- German officials embarrass the spendthrift Italians, announcing at a major meeting that Italy won't make the fiscal cut for EMU.
- Heavy pressure on Paris leads to a complete about-face in French policy, from cutting unemployment to cutting the deficit.

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COMMENTARY

By Brian Bremner

HOW NOT TO WIN FRIENDS AND INFLUENCE TRADE

President Clinton's sudden cancellation didn't crimp the touchy-feely talk about harmonious ties in the world's most dynamic economic region. Leaders from the 18-member Asia Pacific Economic Cooperation forum (APEC), sitting at Japan's Osaka Castle, were able, on Nov. 19, to unveil a far-reaching, if vague, blueprint for achieving a free-trade zone by 2020.

But Clinton's no-show took the steam out of U.S. efforts to show credibility in the region. His decision left Asians with the impression he was dodging Asian commitments to fix budget problems at home. Vice-President Gore's effort to carry the flag wasn't enough to offset the cancellation

Without Clinton, the pressure on Asian leaders to make aggressive market-opening moves was visibly reduced. In fact, some U.S. business leaders fretted that Japan was able to tilt APEC closer to its own preference for glacial openings, while portraying itself as Asia's guardian against coercive U.S. demands. International Trade & Industry Minister Ryutaro Hashimoto told Asian business leaders that Japan was defending "this very Asian approach."

Other U.S. diplomatic forays went by the wayside as well. Sino-U.S. relations have been sorely strained over Taiwan. After Clinton's October meeting with Chinese President Jiang Zemin, a top-level meeting might have helped to defuse tensions (page 60). "We needed to keep the momentum going," says a Western diplomat. "This is a setback."

Clinton also bowed out of a minisummit with Japanese Prime Minister Tomiichi Murayama. Both sides had hoped a planned security declaration would defuse calls to send home some of the 47,000 U.S. troops in Japan following the rape of an Okinawa schoolgirl. Instead, America's top commander suggested the three U.S. military suspects should have hired a prostitute, which spurred new outrage. Because Clinton couldn't sign the declaration, a cornerstone of the U.S. commitment to Asia is still in doubt.

IN VIETNAM: *Asian rivals are ahead of U.S. companies*

Osaka wasn't a complete disaster for Washington. U.S. pressure forced Japan to give up its bid to exclude agriculture from APEC's free-trade agenda. The plan to push deregulatory measures and set up common customs and product standards could help Western companies. Beijing also pledged to cut average tariffs from 36% to 25% to win the U.S.'s help in getting admitted to the World Trade Organization. U.S. Trade Representative Mickey Kantor tried to argue that a U.S. that "has been Eurocentric for decades" is now focused on Asia as never before.

> APEC is starting to look like a mini-MITI that will resist faster trade openings

But that's still not enough, when compared with Japan's sophistication. Japanese bureaucrats from MITI and the Finance Ministry chaired the APEC committees that drew up the nitty-gritty on customs and product standards. Not surprisingly, the biggest beneficiaries of speedier customs clearance are Japanese auto companies that rely on just-in-time manufacturing networks in Southeast Asia. Thanks in part to $100 million in Japanese funding, APEC is starting to look like a mini-MITI, with fiefdoms that will resist legally binding trade moves.

CLOSED DOOR. What it means is that the U.S.'s long-range goal of weaning Asia away from export-led growth to open markets may be harder to attain. While Southeast Asia is lowering tariffs on manufactured goods, roughly 78% of the service sector is still closed. That's important because areas like telecommunications, financial services, and transportation are U.S. strengths.

Nor has APEC tackled Asia's tendency to steer government contracts to favored local players or Japanese multinationals. With the region spending an estimated $1.2 trillion on infrastructure by 2000, APEC hasn't adopted rules on disclosure of links between development aid and winning contracts. Here, Japan's $11 billion foreign-aid budget is a big edge.

Much will now turn on how Washington chooses, or doesn't choose, to exert its influence as APEC starts nudging members to turn trade talk into reality. At next year's meeting in the Philippines, Clinton and the U.S. officials would be well-advised to show up, this time in force.

Bremner is BUSINESS WEEK's Tokyo bureau chief.

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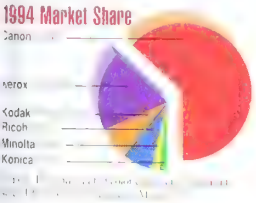

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SOUTH KOREA

THE QUESTIONS IN SEOUL ARE ONLY GETTING TOUGHER

Prosecutors must decide whom to go after—and how hard

The moment of truth is approaching in the biggest bribery scandal to hit South Korea since its founding. Scrappy public prosecutor Ahn Kang-Min has jailed former President Roh Tae Woo for amassing a $650 million slush fund and has questioned 36 corporate chieftains about their "contributions" to him. By Dec. 5, Ahn must decide whether to bring Roh to public trial, a move that could force the arrest of business leaders and bring new pressures on Korea's ruling party. If Ahn backs down, an outraged public will conclude that he is merely a puppet of President Kim Young Sam.

The betting is that the shrewd Ahn will try to demonstrate that his office is in fact independent—without letting the scandal spiral out of control and bring down the entire Korean Establishment. He is in a bind, though, because the Supreme Public Prosecutor's Office up to now has earned a reputation as a pawn of Korean presidents.

BAGS UNDER THE EYES. By grilling the heads of the giant *chaebol*, or conglomerates, and throwing Roh in jail, he has already given the office new stature, one in keeping with Korea's pell-mell push toward fuller democracy. "It's a top priority for him to restore and improve the status and honor of the office," said Kang Man-Soo, one of Ahn's aides.

Ahn, who studied law at the prestigious Seoul National University, led the 1993 investigation of Hyundai Chairman Chung Ju-Yung, who was charged with campaign-finance violations when he was a presidential candidate. Chung received a suspended sentence. In recent weeks, the hard-drinking, slightly pudgy, 54-year-old Ahn has grown big bags under his eyes, partly the result of working nonstop from 8 a.m. to 3 a.m.

Few Koreans are under any illusion that Ahn, who is the third-ranking prosecutor, is acting purely on his own. "Ahn has been acting with the tacit support of the President," says Lee Han-Koo, president of the Daewoo Research Institute.

The test of his integrity will be whether to arrest, and how severely to punish, the *chaebol* chairmen who gave money to Roh. The five-page warrant issued on Nov. 16 for the arrest of Roh accused Kim Woo-Choong, chairman of the Daewoo group, of giving the former President a total of $31 million on seven occasions from 1988 to 1991—some of it in return for a contract to build a submarine base. Choi Won-Suk, chairman of Dong-Ah Construction Industrial Co., also was named. Neither of the executives has commented on the allegations.

TYCOON IN TROUBLE: *Daewoo's Kim prior to questioning*

HIGH DRAMA The public will cry foul if only one or two *chaebol* chiefs are arrested or given suspended sentences

The public will cry foul if only one or two *chaebol* heads are arrested or let off with suspended sentences. And since most business leaders have admitted to giving funds, punishing only a few would be unfair. The *chaebol* claim they were coerced. They argue that an indictment and jail sentence for any of the first-rank tycoons would hurt Korea by damaging the *chaebol*'s international credibility. And throwing all of them in the slammer, they warn, would likely cripple the economy. "It would be a shock to the business community to see Chairman Kim, an architect of modern Korea, imprisoned," observes Stephen E. Marvin, director of international research at Ssangyong Investment & Securities Co.

The even tougher question facing Ahn is whether to trace the money trail into the political sphere. He has already arrested and detained Roh's security aide, Lee Hyun-Woo, on bribery charges. Kim Chong-In, Roh's chief secretary for economic affairs, was questioned on Nov. 21.

EMBARRASSING. The public now wants Ahn to question Lee Won-Jo, former head of the Office of Bank Examination, a regulatory body. He is suspected of managing the slush funds of both Roh and his predecessor, Chun Doo-Hwan. Lee could be the key witness if Ahn decides to extend his investigation to include other politicians such as opposition leader Kim Dae-Jung, who admitted receiving $2.7 million from Roh.

Some insiders believe President Kim has so far cleverly manipulated the scandal to destroy his foes. But if Ahn goes too far, he might turn up embarrassing evidence. Kim, after all, was the candidate of the ruling party during his 1992 campaign, and his enemies charge that he must have received some funding from his predecessor.

That's why the balancing act Ahn is performing is so delicate. "Please evaluate the rights and wrongs of this investigation when the results are out," he says. What's at stake, ultimately, is Korea's ability to clean house without destroying its economic and political stability.

By Laxmi Nakarmi in Seoul and Steven Brull in Tokyo

Chrysler and Plymouth

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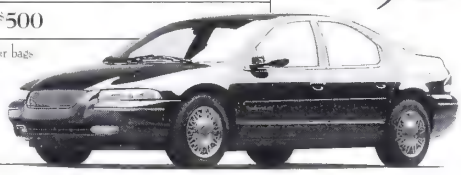

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APR Choices	1.9%	4.9%	5.9%	6.9%
Or Lease	$269 mo. 24 mos. $1,595 down			
Or Cash Back	$1,000			

$269*/monthly lease

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Four-wheel disc ABS
· Power windows, locks and mirrors
Dynamic side-impact protection
· Air conditioning

1996 Plymouth Neon

APR Choices	1.9%	4.9%	5.9%	6.9%
Or Lease	$199/mo./24 mos./$995 down			
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$199*/monthly lease

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132 hp multi-valve engine
Four-wheel fully independent suspension
Air conditioning

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EDITED BY STANLEY REED

POLITICS IS DEFERRING THE DREAM OF A 'GREATER CHINA'

For years, Asia watchers have predicted the rise of a Greater China. The mainland's vast labor pool combined with Taiwan's technological knowhow and Hong Kong's financial resources would create an economic superpower, they said.

But recently, political differences have returned to center stage, raising doubts about the speed of economic integration. China's threats to curtail political freedom in Hong Kong after taking over in 1997 have raised questions about the colony's future as a financial and corporate center. And the upcoming elections in Taiwan could further chill relations between the island economic dynamo and the mainland.

On Dec. 2, Taiwan's voters will choose a new legislature. Then, in March, they will vote in the country's first-ever direct presidential elections. This comes after a summer of severely strained relations with Beijing, following Taiwanese President Lee Teng-hui's visit to the U. S. last June. Worried leaders in Beijing are watching to see how much support the electorate will give to pro-independence candidates. Beijing insists that Taiwan is part of China and not an independent country. And the Chinese are preparing to hold military maneuvers off Taiwan to intimidate voters—probably in vain. "Beijing doesn't know how to handle the situation here," says Chih-yu Shih, a political science professor at National Taiwan University.

TAIWAN'S LEE: *Tight spot*

Beijing's problem is that the Taiwanese leaders it has grown comfortable with are losing power. Since 1949, Taiwan has been ruled by the Kuomintang, a party mostly made up of former mainlanders committed to reunification with China. But under Lee Teng-hui, a native of Taiwan, the KMT has tried to widen its base by bringing more local Taiwanese into its ranks. Although Lee still calls for reunification, Beijing regards him as a closet independence advocate. To Beijing's dismay, Lee has lobbied for high-profile ties with the U. S. a a bigger role in international organizations.

But Beijing's confrontation with Lee has only enhanced h popularity, and he is likely to emerge the winner in th presidential elections. Chances are, he will be pushed to tak increasingly independent positions by the pro-independenc Democratic Progressive Party, which has steadily gaine strength since the abolition of martial law in 1987. Beijing f vors the New Party, a staunchly pro-unification group dom nated by former mainlanders who recent walked out of the KMT to protest Lee's policie But the New Party represents only a sma minority of the Taiwanese.

The likelihood of continued tensions ha alarmed Taiwanese business leaders, who a slowing their investments in China. Meanwhil "American multinationals are now thinkin twice about whether investments in Taiwa will hurt their prospects in China," says a U. business executive in Hong Kong.

Despite the friction, no one is writing o Greater China. Optimists predict that onc Governor Chris Patten and the Britis depart from Hong Kong in mid-1997, Beijin could work out its problems there fairly eas ly. That would be a powerful incentive fo the Taiwanese to warm things up wit Beijing.

But there are a lot of hurdles to overcome first. Presiden Lee is going to have to be careful not to cross Beijing's i dependence red line as he pushes for more recognition. An Beijing will have to wake up to the fact that gunboat dipl macy is unlikely to work in late-20th-century Asia. Unless a three Chinas learn to finesse political differences, the vision a Greater China could be dashed.

By Joyce Barnathan in Hong Kon and John Winzenburg in Taip

GLOBAL WRAPUP

MURDOCH'S LATIN DEAL

▶ Rupert Murdoch is spreading his global reach to Latin America. His News Corp. has teamed up with Mexico's Grupo Televisa and Brazil's Organizações Globo in a deal to broadcast 150 channels, mostly in Spanish and Portuguese, by satellite. U. S. cable giant Tele-Communications Inc. is also a partner. The venture is chasing more than 400 million potential viewers in the region. Murdoch expects a million subscribers will be ready to pay at least $500 for a satellite dish when his service begins in May of 1996.

BRITISH LABOR TROUBLES

▶ A six-year calm in labor relations at Britain's U. S.-owned auto companies could soon end. At General Motors Corp.'s Vauxhall unit, workers have voted for industrial action, including a strike, if GM doesn't sweeten its offer of a 3.5% pay hike. Labor wants an 11% raise. Ford Motor Co. workers haven't voted yet, but recent wildcat strikes at three plants indicate displeasure with a 4.75% pay increase. Altogether, 30,000 GM and Ford workers could be affected.

U.S. TROOPS FOR BOSNIA

▶ Don't be surprised if President Clinton keeps up his foreign-policy winning streak. While Republicans have denounced the Administration's pledge to send troops to Bosnia to enforce the U. S.-brokered peace pact reached Nov. 21, Administration officials are confident Congress won't block troop deployment. Even the GOP will be wary of repudiating a diplomatic triumph by a U. S. President.

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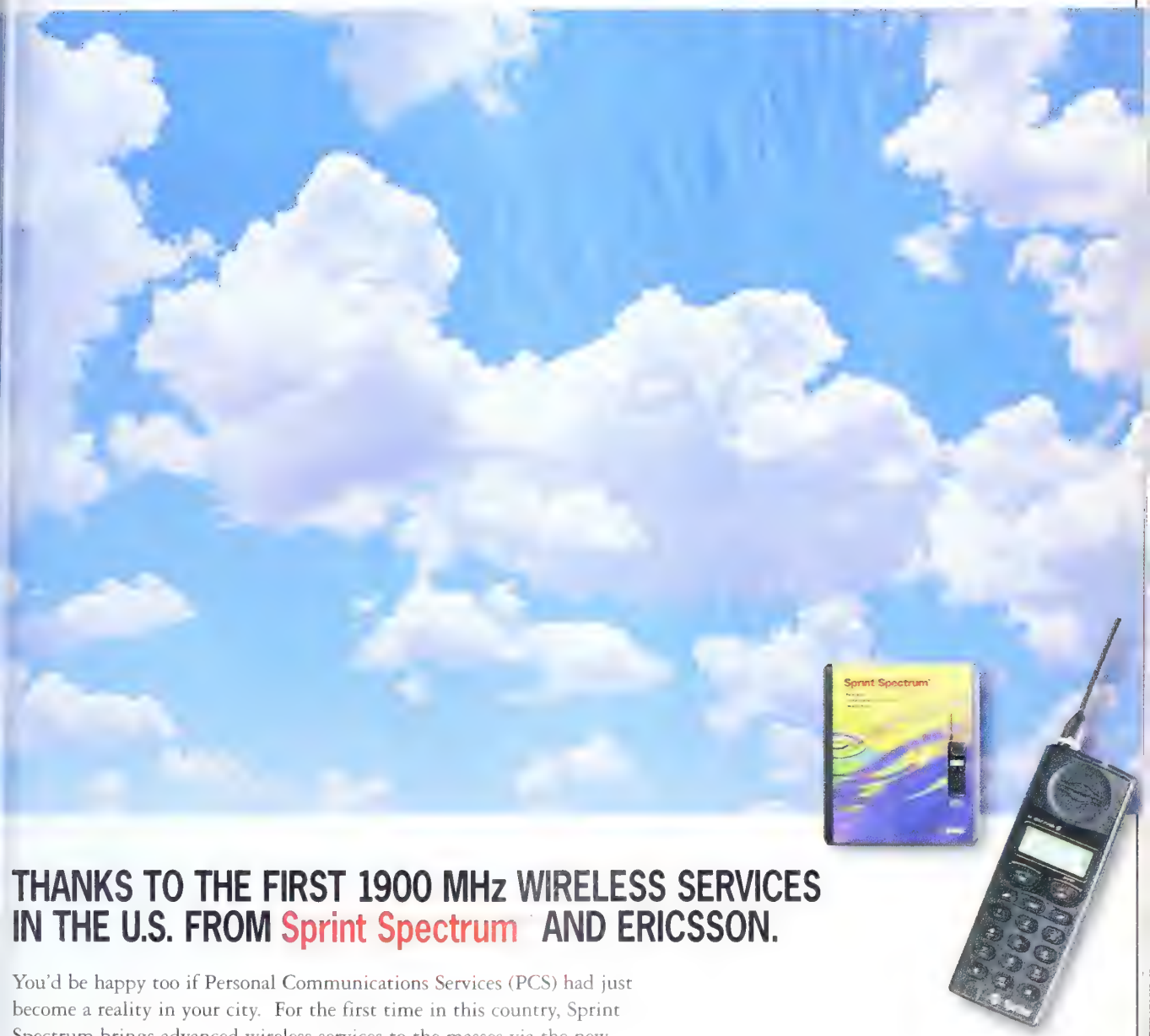

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GROWTH STRATEGIES

POLAND: RISING STAR OF EUROPE

Under President Kwasniewski, it will continue to be a classic model of economic reform

The fate of most civil engineering grads in communist-controlled Poland was a 6 a.m. to 2 p.m. job in a drab state factory. Not for Jacek and Irena Szot. In the 1970s, when private ventures of fewer than 15 people were allowed to go it alone, the newlyweds first tried making furniture and then growing flowers in Piaski, their village in eastern Poland. In 1983, they bought some rickety equipment and began stamping out rubber auto parts.

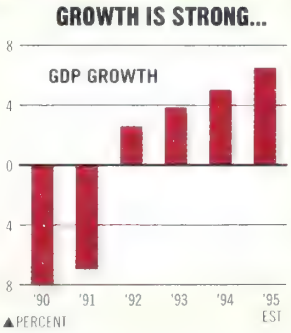
This one paid off. Jacek made dies, Irena managed the books, and they built a $2 million auto-parts business. They sold 49% to foreign venture capitalists in 1992, a move that honed their financial skills. Now, from a blue-and-white shed that farmers in horse-drawn carts can barely spot between wheat fields, the Szots ship to factories across Poland. Some of their parts cost just 10% as much as those from Western Europe. The Szots aim to hit both price and quality levels demanded by General Motors Corp. "We're not afraid. We can meet their standards," Irena says.

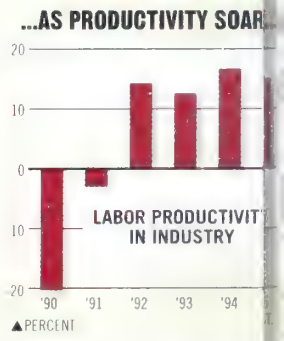
Such confidence echoes throughout

BY A NOSE Voters liked President Kwasniewski's appeal: stop living in the past

Polish Economic Solidarity

Now if only the politicians don't slow things down...

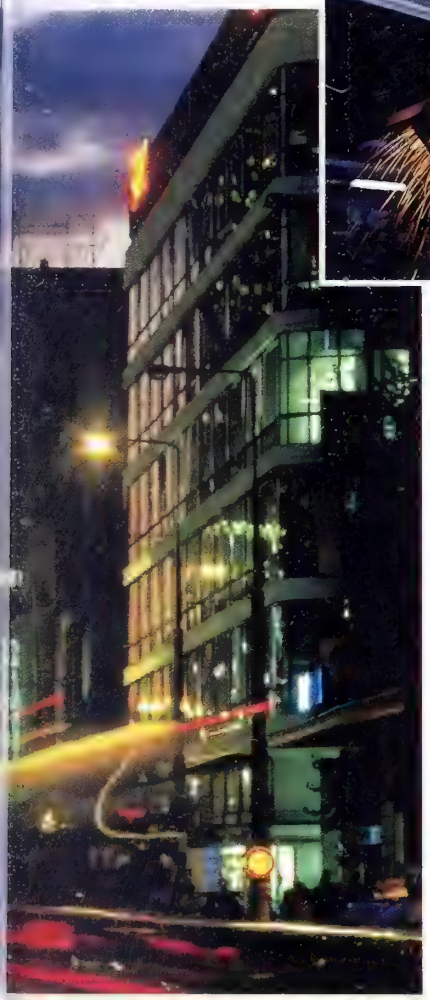




DATA: DEUTSCHE BANK RESEARCH CREDITANSTALT, BUSINESS WEEK

ne country these days. After a diffi-ult start, Poland is emerging as Eu-ope's star performer. Economic growth, t 6.5% this year, is the most robust in 'urope. Unemployment peaked in 1993 nd, at 14%, is heading down. Inflation, hile high at 28%, is sharply below ear-er levels (charts). Privatization is mov-ng ahead, and even foreign investment, ng lagging behind that in eighboring countries, is icking up steam.

This momentum should ontinue even beyond the ra of Lech Walesa. On Nov. 9, Democratic Left Alliance arty chief Aleksander Kwasniewski, 41, edged out Walesa, 52, to become Poland's President. An ex-communist, Kwasniewski is a firm advocate of market reform, sell-offs of state industry, and control of government spending. He is also committed to guiding Poland into NATO and the European Union. Walesa, the Solidarity hero who has been a fixture in Polish politics for 15 years, waged an anti-communist campaign against the charismatic Kwasniewski that backfired. Many Poles resented the Catholic Church backing Walesa from the pulpit, and preferred Kwasniewski's appeal to stop wallowing in the past.



DYNAMISM At night, Warsaw is vibrant—by day, Daewoo revs up car and van output

Of course, the past still lingers. The state controls 40% of the economy, and a communist-style welfare system has created deficits that make inflation tough to reduce. Kwasniewski, who calls himself a social democrat, may feel obliged to listen to more extremists in his party who want to cater to farmers, pensioners, and others who feel shoved aside by the new Poland. Already, many people fear that too many former communists hold government posts and that such cronyism could grow, especially now that one party controls both Parliament and the presidency. Reflecting these post-election jitters, domestic investors drove the thinly traded Warsaw stock exchange down 3.8% on Nov. 20.

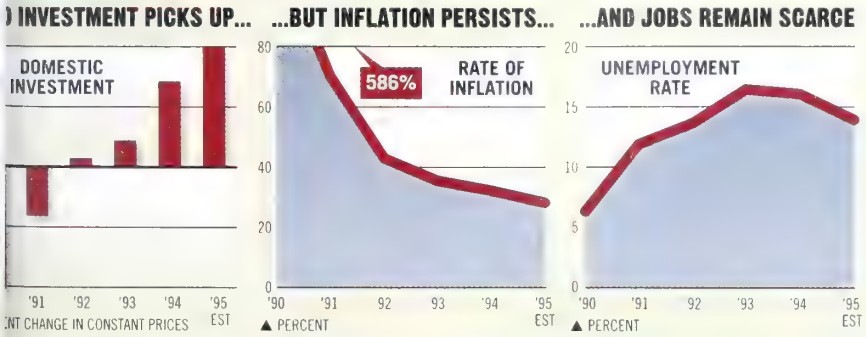
Yet even if there is a slowdown in growth rates, the direction in Poland is clear. A core of technocrats in the Finance Ministry and central bank is committed to keeping inflation down and reducing deficits. They have done so even through two years of ex-communists controlling Parliament. Last summer, they engineered Poland's return to the markets—with a $200 million Eurobond that was oversubscribed enough to raise $250 million. Even Leszek Balcerowicz, former Finance Minister and architect of the shock therapy reform, agrees his principles have been kept intact. "Poland has proved it can be an economic tiger," he says.

The country is poised to reach developed-nation status. Its banking system, long mired in communist-era problems, is transforming itself into a force for rebuilding industry. With a population of 40 million, low-cost labor and a central location between west and east, Poland has advantages as a market and a site for investment: It is already becoming a carmaking hub.

Economies to the east now regard Poland as a model. Unlike in neighboring countries, early reformers threw open borders, cancelled price controls, devalued the currency, and shackled the budget. Many scoffed that such shock therapy would wreck the economy or trigger a backlash that would jeopardize reform. Instead, the gamble paid off.

STREAMLINING. Poland is pulling ahead thanks to its thriving corporate sector. More than 2 million private companies sprang up in the free-for-all after four decades of communism ended in 1989. Spurned by state banks, and unable to tap the tightly regulated stock market, most entrepreneurs have financed their initial growth by plowing profits back into the business. Now, more successful companies are turning to commercial paper, floating bonds on the Euromarkets, or winning the backing of foreign venture capitalists. "There's a new class of managers," says Barbara Lundberg, Warsaw director of the Polish-American Enterprise Fund.

Like their more aggressive Asian counterparts, Polish managers are increasingly measuring themselves against global competition. From mom-and-pop outfits to conglomerates, investments have been geared to streamlining operations to meet world standards. Thanks to healthy productivity gains of



up to 15%, exports have surged 37%, to $16.6 billion, this year, despite the rising value of the zloty. More than 200,000 companies now export from Poland, up from just 200 five years ago.

Much of the dynamism doesn't show up in statistics. Analysts figure the underground economy represents 25% of gross domestic product. Just take a trip to the western border, where traffic jams last for hours—as Germans line up to buy gasoline, clothing, and household goods at half what they pay at home. Such trade added $4 billion in mystery foreign exchange to the Polish economy this year. Foreign currency reserves, now at $14 billion, are strengthening the once-feeble zloty even against the German mark.

Foreign direct investment, after a halting start, is picking up. Some $5 billion in direct investment went to Poland between 1990 and 1994. In just the first half of 1995, however, a further $1 billion has been plowed into the country. Susanne Gahler, economist at J. P. Morgan in London, predicts that foreign direct investment will grow an additional $3.5 billion by the end of 1996.

Investment is on the rise because more foreign companies see the potential of Poland's domestic market and its attractiveness as a supply base for both West and East. PepsiCo Inc., for example, is pumping in $500 million to expand its three divisions in Poland: soft drinks and bottling, fast-food restaurants, and snack foods and chocolates. The company employs 6,600, up 90% from two years ago. A number of French and German retail chains have also been quietly positioning themselves to suppl Poland's rising middle class.

BIG WHEELS Jacek and Irena Szot aim to make auto parts for the likes of GM

Korea's Daewoo Motor Co. chose Po land as its beachhead for auto produc tion in Europe. It recently beat out G by offering more than $1 billion to tak a 70% stake in an auto plant near War saw. In August, Daewoo also took ove a sprawling van production factory i Lublin. By 2000, it will make 40,00 vans a year, half of them for export, a well as assemble 50,000 Daewoo pas senger cars. All 6,000 workers at th Lublin factory are likely to be sent t Seoul for training. "Our workers are a good as the Koreans," says Wieslaw Karykowska, head of the Solidarit trade union at the plant.

Another wave of foreign investmen will come as Poles begin attracting cap ital for infrastructure projects such a toll roads, which are crying out for pri vate financing. The electrical-power gri alone needs up to $1 billion to modern ize, estimates David Hunter, Polan manager for ABB Asea Brown Bover Ltd. Meanwhile, ABB has a big orde backlog for businesses ranging from tur bines to robotics, and it expects annua sales of $1 billion in Poland by 2000, u from $260 million in 1994. The compan is using Poland as a platform to expan to the East and West. ABB's workers i St. Petersburg, for example, are traine by engineers from its unit in Poland.

SHREWD. But foreign companies aren' the only engines for Poland's industria revival. Across a broad swath of Polis industry, several dozen privatized com panies are making a comeback. Agros, food broker, is getting into processin and distribution. Order books are ful at Rafako, a maker of steam pipes an water boilers, as Poland renovates it energy-production facilities. Industrie such as glassmaking, heavy manufac turing, and tire making are posting hug profit gains after investing in computer and manufacturing technology to boos quality for both the domestic and expor markets. Even many state companie are profitable.

Corporate Poland is filled wit shrewd business types such as Roma Kluska. Even in the old days, the gov ernment couldn't control him. As depu ty director of a state-owned compan that repaired cars and trucks in south ern Poland in the mid-1980s, h scrounged the parts to assemble an sell cars, too. Irked that the cost of en ergy and materials exceeded the valu of the company's output, he split th plant into 20 units and promised work ers a share of the gains. Profits soare and salaries shot up, but the commu

BEHIND POLAND'S TURNAROUND

The shock-therapy program that Poland launched in 1990 has touched off an economic revolution. Here are the key elements:

EXPLOSION OF PROFITABLE PRIVATE COMPANIES With wages flat and productivity rising, thousands of new companies have plenty of cash to finance growth.

SURGING EXPORTS Companies are gearing their output to European and world markets—as exports rose 37% this year. Some 200,000 companies are exporting, up from just 200 five years ago.

BENCHMARKING AGAINST ASIAN TIGERS Polish companies, taking advantage of falling labor costs, are striving to match the prices of companies in countries such as Malaysia, Singapore, and Taiwan.

VIGOROUS BORDER TRADE Flourishing towns on Poland's eastern and western borders are bringing in some $4 billion in hard currency a year.

RESTRUCTURING STATE CORPORATIONS With subsidies eliminated, many outfits have laid off thousands and have become marginally profitable, thus reducing the burden on the state budget.

DATA: BUSINESS WEEK

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nist workers council didn't like it—so they sacked him.

With just $12 in his pocket, Kluska and his wife founded computer maker Optimus in his parents' attic in 1988. As the communist regime unraveled, Kluska leveraged family property in southern Poland for a $25,000 loan at 20% interest a month. Now, he holds 35% of the Polish market with computers assembled from Intel chips, Samsung monitors, and Microsoft operating systems, sold through 1,100 outlets. After hiring top Polish engineers to add features such as portable hard drives, he says that he can still undercut imports from Asia by 20%. Pretax profits are 9% of $95.5 million in sales. "I never dreamed we could abandon the old system so quickly," he says.

In thriving Warsaw, the unemployment rate is only 1%. In the countryside, things aren't as good, but even there, those who were initially hurt by reform are finding new ways to make a living. Bogdan Zajac, 40, lost his job as a carpenter at a state agricultural cooperative when reforms hit. But he and his wife, Malgosia, had slowly accumulated land in the eastern village of Gardzienice, where they grow wheat, sugar beets, and potatoes. Despite long hours and troubles with middlemen who don't pay on time, they have built a secure life for their three children. "Times are easier now for people who are enterprising," says Zajac, over vodka and sausages in their kitchen.

As it continues to reshape its economy, Poland faces the classic conundrum: how to maintain growth without triggering higher inflation. Policymakers will have to attack three areas: privatization, reform of the pension scheme, and development of banking and finance.

Poland has dragged its heels on privatization. A program to sell off hundreds of companies en masse in 1991 was delayed for four years by political infighting and conflicting agendas within the right and the left. A watered-down version of the plan, putting 413 companies under the control of 15 management funds, got off the ground last summer. Yet more than 4,000 factories are still in state hands. And loss-making industries such as coal and steel desperately need to be restructured. Although many state companies began to shape up after the government eliminated subsidies in 1990, they need the discipline of demanding shareholders to make their exports competitive.

But the knottiest problem facing the Kwasniewski government is Poland's giant safety net. Social spending has surged from 8.4% of GDP in 1988 to more than 20% now. Some 9 million pensioners soak up 16% of the budget—a figure high even by European standards, because lax rules allow many to retire in their 40s. After ad hoc solutions such as slashing pension spending by 10% a year for three years, the government is working on a plan that combines state and private contributions to the system.

TECH WHIZ Kluska makes computers using imported parts—and has a 35% share

It's a political hot potato. Pensioners are suffering most from the economic transformation. Soup kitchens have popped up. Many people, especially in the countryside, feel they were better off under the old regime, when they could build houses with cheap loans and the government bought their grain crop.

FILLY FOR SALE? On a crisp autumn morning at the horse market in the village of Piaski, for example, resentment bubbles up. Farmers leading draft horses glower at a well-dressed middleman buying horse meat for restaurants in Italy—and driving a hard bargain. The reformers "have thrown this country to the dogs," says Boleslaw Nucia, 68, who wants to sell his filly but not at such a low price. Even though he receives a $123 monthly pension, he needs extra money for a tractor to work his 27-acre farm. "At least the communists gave us the right to a house, a job, and food on the table," he adds.

To continue modernizing the economy, Poland must also overhaul its banking system. While state-owned banks have been cleansed of millions of bad loans, they still are wary of lending to Poland's cash-hungry private companies. Instead, they use the bulk of their cash to buy government debt—a safer bet, and critical to help fund social spending. Now the banks seem poised to take a more aggressive role in financing the economy. Competition from foreign banks is goading them into action. Citibank and several Dutch and Austrian banks, which have long been active in the market, have expanded from serving multinationals to attracting Polish exporters as clients. In recent months, several German banks were granted licenses or bought stakes in troubled Polish banks.

The banks are starting to put together foreign debt offerings for fast-growing companies, and the mortgage business is on the rise. "There's big potential in mortgages, with the younger generation a driving force," says Slawomir Sikora, vice-president of the management board at Powszechny Bank Kredytowy.

One fear among international lenders: Poland could be done in by its own success. As exports surge and foreign money flows in, Kwasniewski's policymakers will have to cut deficits more quickly or risk an inflationary spiral. Others worry that a strong currency will stifle exports. "I never imagined our problem would be a too-strong zloty and huge foreign reserves," says Ryszard Kokoszczynski, a director of the National Bank of Poland.

Few would have guessed back in 1990, when prices soared and living standards plunged, that Poland would have come so far. If growth continues and the new regime stays the course, it's likely that Polish corporations will soon be making their mark throughout Eastern and Western Europe. Entrepreneurs such as Jacek and Irena Szo are just getting warmed up.

By Karen Lowry Miller in Piaski and Frank J. Comes in Lublin, with Peggy Simpson in Warsaw

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CANADIAN FOOTBALL IS RUNNING OUT OF PLAYS

Its push into the U.S. is failing–and the league's future is uncertain

Since the Baltimore Stallions began playing in the Canadian Football League last year, they have been the winningest expansion franchise in the history of professional sports. In their first two seasons, the Stallions took an incredible 75% of their regular-season games. And on Nov. 19, they played in their second straight Grey Cup, the CFL's answer to the Super Bowl, and won it—a first for a U.S.-based team.

But winning isn't everything—or, a wag might say, anything—if you're an American team in the Canadian Football League. The league's ambitious drive into the U.S. seems to be coming to grief, and a National Football League expansion into the Toronto market would threaten the league's existence.

IMPATIENCE. Three years after the CFL pushed south, four of its five U.S. teams are threatening to move or disband. That continues the disastrous pattern set after the 1994 season, when only two of the four U.S. franchises then in existence (the Stallions and Shreveport Pirates) stayed put. The Las Vegas Posse folded, while the CFL's first U.S. owner, Fred Anderson, moved his Sacramento Gold Miners to San Antonio. Although Anderson says he's willing to stick it out for one more season, his patience has been wearing thin. No wonder: Every U.S. team in the league is hemorrhaging red ink, and this year, Anderson figures, "Our [collective] losses will be in excess of $20 million." Concedes Larry Ryckman, owner of the Calgary Stampeders: "The U.S. expansion is an experiment that may end up not working."

The CFL's U.S. follies provide fresh evidence that it's still impossible to compete with the "Not-so-Fun League," despite the NFL's numerous woes. The CFL's expansion follows several other failed efforts to launch pro football leagues in the U.S., including the U.S. Football League in the 1980s and the NFL's own World League of American Football in the early 1990s.

When the CFL launched its invasion in 1993, it hoped to avoid its predecessors' mistakes. Unlike the USFL, the CFL assiduously avoided markets where the NFL was entrenched. And the CFL was the first to offer a different brand of football: Canadian rules give teams 12 players, longer fields, and just three downs to advance 10 yards. With the pressure on to make each play count, many think the result is a faster-paced, more wide-open game.

At $3 million a franchise, the CFL looked like a bargain, and it attracte some top-flight owners, including Fede al Express Chairman Frederick W Smith, who bought the Memphis Ma Dogs. The CFL secured leases at suc big-league stadiums as San Antonio' Alamodome (which seats 59,000), an Birmingham's Legion Field (75,000). An it signed up coaches who brought in stant credibility. The Birmingham (Ala Barracudas hired former Houston Oiler coach Jack Pardee; the Shreveport (La Pirates signed former Green Bay Packers coach Forrest Gregg.

CRIMSON TIDE. But despite rock-bottor ticket prices, no U.S. team except Bal timore could average even 20,000 fan per home game. In Birmingham, th 'Cudas—who sank over $10 millior twice the league average, into their in augural season—couldn't draw eve 10,000 once the University of Alabam Crimson Tide started rolling. "In Ala bama, college football is a religion, sighs 'Cuda Executive Vice-Presiden Ty Coppinger. "We don't want to com back for another season if it means play ing in the fall."

The U.S. teams were also hurt b lack of TV exposure. Although ESP broadcast 25 CFL games, most were aire on its second-tier network, ESPN-2, an drew just 0.3% of available viewers. An in four of the five CFL markets, mos households don't even receive ESPN-2.

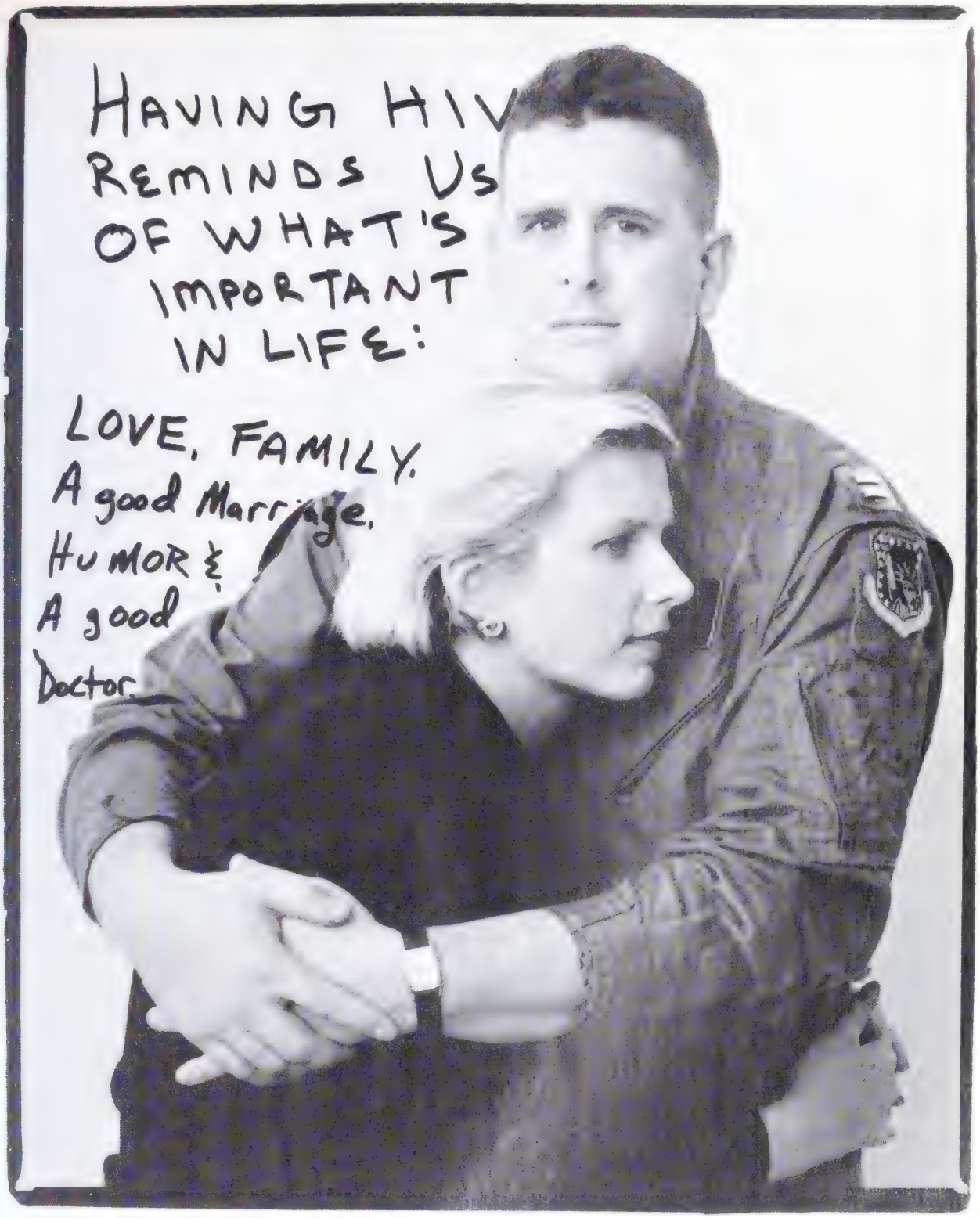
The future of the CFL's U.S. expansio hinges on a Nov. 29 Toronto meeting o the league's Board of Governors. U.S

'CUDAS VS. STALLIONS: *Even winning teams aren't thriving*

THE CFL'S U.S. WOES

TEAM/COMMENT	ESTABLISHED
BALTIMORE STALLIONS Expected to move—perhaps to Houston	'94
BIRMINGHAM BARRACUDAS $10 million loss in first season	'95
MEMPHIS MAD DOGS Future uncertain	'95
SAN ANTONIO TEXANS Lost $5.5 million this year	'95
SHREVEPORT PIRATES Moving to Norfolk, Va.	'94

CFL games, broadcast mostly on ESPN's second-tier network, pulled in only 0.3% of available viewers



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SAN FRANCISCO AIDS FOUNDATION 1993 PHOTOGRAPHED BY ANNIE LEIBOVITZ

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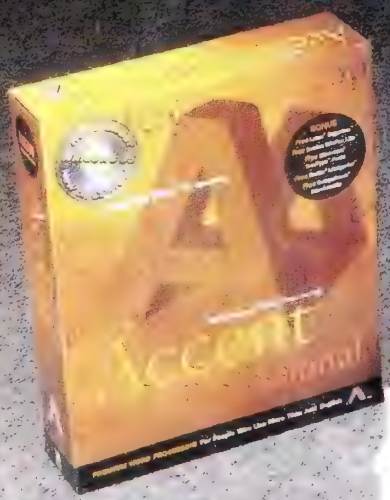

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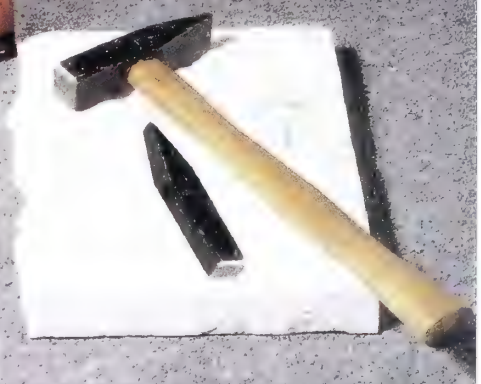

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owners will be pushing for big changes. They at least want a division that clearly identifies their teams as American. Some, including Mad Dogs President Pepper Rodgers, want to jettison Canadian rules in favor of the U.S. game. "Selling the Canadian game on American soil has been real tough," Rodgers complains. Maybe so, but the Canadians aren't about to compromise. A change to U.S. rules "would be divisive and will not be negotiable," says CFL Chairman John Tory.

Instead, the CFL seems headed for another game of musical markets. On Nov. 14, the Shreveport Pirates announced plans to move to Norfolk, Va. And James L. Speros, who as owner of the Stallions will have an NFL team in his town if the Cleveland Browns move to Baltimore, says that he has "been flying all over the country looking for a new home" for his team. Speros says the chances are pretty good he'll move the Stallions to Houston. With Birmingham and Memphis still mulling where and even whether they'll play in '96, only San Antonio's Anderson is committed to staying put. But even he worries that "it will be very tough [to survive] if we don't have at least four U.S. teams."

ARGO ANGST. "We're still committed to seeing if we can be successful in the U.S.," says CFL Commissioner Larry W. Smith. But, he warns, "We've always had a backup plan" in case the U.S. adventure aborts: "to retrench in Canada." That would hardly end the league's problems, however. At best, two of the eight Canadian teams will turn a profit this year. Worse, there's growing concern about the team in Canada's largest market, the Toronto Argonauts. The Argos are up for sale, losing money, and threatened by a well-heeled effort to bring an NFL franchise to the Toronto Skydome, where the Argos play.

That effort is being led by Paul Godfrey, chief executive of Toronto Sun Publishing Corp., who played a key role in bringing Major League Baseball to Toronto in 1977. "I hope to have an NFL team in Toronto by the year 2000, if not sooner," says Godfrey, who boasts he could sell 10 years' worth of NFL tickets before the opening kickoff. Although there's no guarantee Godfrey will grab a team, Argo President Bob Nicholson admits he's worried. "I've never seen a scenario where both teams [the Argos and an NFL squad] could survive in Toronto," he says. And if the Argos fail, many Canadians believe the end of the 83-year-old CFL wouldn't be far behind.

By William C. Symonds in Toronto

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the judges

A distinguished panel of judges, comprised of creative executives from advertising agencies and marketing executives from the high-tech industry will evaluate the ICON entries.

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Entries must have been published, appeared, distributed or broadcast during the calendar year 1995 (1/1/95 - 12/31/95). **Who is eligible:** Products and services in the following categories: Computer hardware, computer software, online services, computer distributors, resellers and VARs. **Who is not eligible:** Products and services in the following categories: Video games, consumer electronics, telecommunications (including beepers, cellular phones, etc.), computer and electronic retailers, magazine, newspaper and newsletter publishers.

how to enter

To request an official entry form, call Susan Connolly, Special Projects Manager, Marketing Computers Magazine at 212-536-6588 or Fax at 212-536-5353.

entry fees/deadlines

All entries must be received by January 8th. Entry fees are: Campaign (categories 1-3): $150. Single Entries (categories 4-28): first entry $125, each additional entry, $95.00.

celebration

Gold, Silver and bronze awards will be presented at a gala ceremony in San Francisco in the Spring of 1996. Finalists will receive and official letter of notification the week of February 19, 1996. All entrants and interested parties are welcome to attend the awards presentation.

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THE SOFTWARE REVOLUTION

The Internet changes everything. Coming soon: Cheap, Web-ready mini-programs. No wonder the giants are jumpy

Imagine that to read this magazine, you needed a special program for the text, another program to view the photographs, and yet another to look at the charts. Or, to watch your favorite TV shows, you needed a CBS viewer to watch David Letterman and an NBC viewer to watch *Seinfeld*. Oh, yes—you'd also wind up buying a new, "upgraded" viewer every year or two. And to make sure that viewer does its best, you'd buy a new TV, too.

You wouldn't stand for it. But this is precisely what computer users have been doing for years. At the root of this situation is the way that software is created, distributed, and consumed. Programs such as spreadsheets or word processing packages are written for a particular type of hardware and operating system—so your Windows Excel spreadsheet won't work on your Macintosh. And even if they're written for the same operating system, programs from different software makers won't work easily together. Worse, programs from the same suppliers don't necessarily work easily together because data must be arranged in a particular way for each: Your spreadsheet package can't deal with the text from your word processing package, and vice versa.

Cover Story

One way software makers have gotten around this is by creating "bloatware"—ever-fatter packages that throw in dozens of new features. With each upgrade, the customer has less need to look elsewhere. Today, the most popular business software comes in "suites," collections of programs sold as deeply discounted bundles surrounded by gobs of new code to make it appear that the programs actually mesh with one another.

This may not be the best solution for computer users who just want a better way to get at the information they need. But it's great for PC and software makers. The escalating demands of bloatware drive sales of ever-more-powerful computers, creating an unholy alliance between software and hardware makers. This fall, for example, millions of consumers who want Microsoft Corp.'s Windows 95 operating system will spend billions to trade up to PCs using Intel Corp.'s speedy Pentium chips.

Why do customers go through this? They have few alternatives. The "Wintel" standard (PCs that run Microsoft Windows and use Intel processors) represents 80% of PCs sold, providing a standard "platform" of hardware and operating-system software that hundreds of PC makers sell. That keeps prices low and ensures that there will be thousands of programs available. Wintel is also a huge improvement over the bad old days when customers were locked in to IBM or Digital Equipment Corp. machines because they used software that ran only on those brands. But even with Wintel, computer buyers are locked in to the platform: They get advances only when Microsoft and Intel deliver them, and they pay whatever Microsoft and Intel determine they should.

What if this cycle could be broken? What if you could find the information you're after without having to take into account what kind of program to use, what computer it runs on, or what kind of format it's in? What if software as we know it were to disappear? What if software could be reinvented?

Well, that's exactly what's beginning to happen—and at a pace nobody in the computer industry anticipated. The force that's shaking the foundations of the old software business is the Internet and its graphical subnetwork known as the World Wide Web. First, the Internet's TCP/IP communications standards made it possible for tens of millions of computers using different operating systems and applications programs to "talk" with one another—whether they're on a local-area network or positioned at opposite ends of the globe. Then, the Web's HTML (hypertext markup language) gave all these computers a lingua franca for displaying information in graphical "pages."

FALLING INFORMATION WALLS. In the two years since the Web and the Mosaic program for viewing its pages emerged from research labs, the Web has turned into a huge virtual disk drive. It's crammed with every possible form of information—from online magazines to digitized film archives to radio programs—all available at the click of your mouse on a blue "hyperlink." The same Web document is accessible to anyone with an HTML browser, whether it's on a Unix workstation, a Windows PC, or a Macintosh. Says Rusty Rahm, president of StarNine Systems, a maker of Web software for Apple computers: "On the Internet, nobody knows you're a Mac."

Suddenly, the barriers that have kept information from flowing between different brands of computers and software have

It's Everyware!

The Internet and its World Wide Web have created an infrastructure for delivering information to computers virtually anywhere. Now, the same thing is happening to software, thanks to Web programs such as Sun Microsystems' Java. The result: A revolution in software.

SOFTWARE TODAY

HARDWARE LOCK-IN Programs written for a specific type of computer "platform" lock customers into hardware that runs the software they need. The "Wintel" standard (Intel-based PCs using Microsoft Windows) gives a wide choice of PC brands. But customers are locked in to the Wintel platform.

UPGRADE TREADMILL Every two years or so, applications and operating-systems developers trot out upgrades and cram in new features that push the limits of hardware. To handle a major upgrade such as Windows 95, millions of customers are forced to replace computers that still work perfectly well.

DISTRIBUTION Today, software comes loaded on the hard drive of your computer when you buy it or in a box from a software store. This complex distribution chain adds to cost and often forces consumers to buy more than they want.

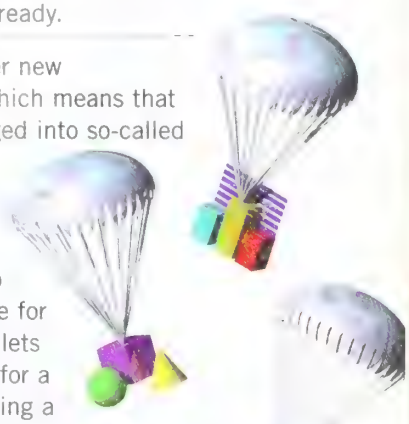
BLOATWARE Packaged software—programs such as word processing packages—have mushroomed into "bloatware." They're huge—some more than 50 megabytes—slow, and crammed with features that most people never use.

IN THE INTERNET FUTURE

HARDWARE-INDEPENDENT STANDARDS A package written using a Web-compatible software language, such as Java, will run just as well on a PC as on a Mac—or on a future Internet appliance.

SOFTWARE ON DEMAND In the networked era, computer buyers can jump off the upgrade treadmill. Instead of waiting for the creator of your favorite program to add a key feature or fix a flaw, you can buy it on the Net from the software supplier—or an enterprising competitor—as soon as the improvement or patch is ready.

OBJECT TECHNOLOGY Java and other new programming systems are "object-oriented," which means that data and the software needed to use them are merged into so-called objects. An object called "quarterly sales," for example, might have the data and the programming needed to construct a bar chart.



APPLETS Forget bloatware: You'll be able to purchase (or even rent) little bits of software for specific tasks as you need them. Many applets will be object-based and may be intended for a one-time use only—say, an applet for ordering a free sample from a publisher over the Internet.

Architects of the New Software

"The two most exciting things right now in software are objects and the Web"
STEVE JOBS
NeXT Computer

begun to crumble. The next step will be critical: using the Web not only to make the same information available to all wired machines but to let them share the same programs. If that can be done, there will be a basic shift in the software business no less seismic than the fall of the Berlin Wall. It, too, portends a new world order and vast new opportunities.

The new software order will reflect the character of the Internet itself. Barriers to entry will be minimal: Anybody with a network link can play. Costs of goods sold will be the price of sending some bits down the wire. Bloatware blockbusters costing hundreds of dollars may give way to software on demand—snippets of new programming that come across the Net like E-mail. In short, the Internet, says Eric Schmidt, chief technology officer at Sun Microsystems Inc., "enables the deconstruction and the construction of a new economic model for the software industry."

Cover Story

WINTEL'S DISCONTENT? What of the old model? In the face of the Web—a truly universal standard—the prevailing Wintel standard doesn't look so unshakable. And the huge profits that Microsoft and Intel get by setting the standards don't look so safe. Since September, the hardware business has been buzzing about low-cost "Internet appliances" that will challenge Intel PCs.

Now, Microsoft is in the hot seat. On Nov. 16, Rick G. Sherlund, the influential Goldman, Sachs & Co. analyst, dropped Microsoft from the firm's recommended list, citing slower sales growth in conventional PC software and warning of the rising challenge to the giant from Internet software suppliers. The Web, he noted, "is a serious threat to Microsoft's ability to set standards for important parts of the industry."

The news of Sherlund's downgrade sent Microsoft shares tumbling 7%, to 87¾ in two sessions—and boosted Internet stocks. In an ironic twist, the already white-hot shares of Netscape Communications Corp. passed 110½, making company founder James H. Clark the newest software billionaire.

Despite this dramatic reversal on Wall Street, William H. Gates III, the first software billionaire, is not exactly on his way to oblivion. All the Internet software upstarts combined are a mere speck compared with his $6 billion empire. And now, his organization has gotten the Internet religion—big time. Gates has made it clear to all his troops that the Net and the Web are now Microsoft's highest priority.

All Microsoft's products, from Windows to Word to Excel, are being extended to embrace the Net. Gates's new book, *The Road Ahead* (page 13), is largely about the Net. And at Comdex, the giant computer-industry show held in mid-November, Gates used his keynote speech to sketch out ways in which Microsoft plans to build a new set of Net software on top of its existing programs. "The Internet is nothing but good news for software," he said. "When you get low-cost communications, you want more software to help people

The Shifting

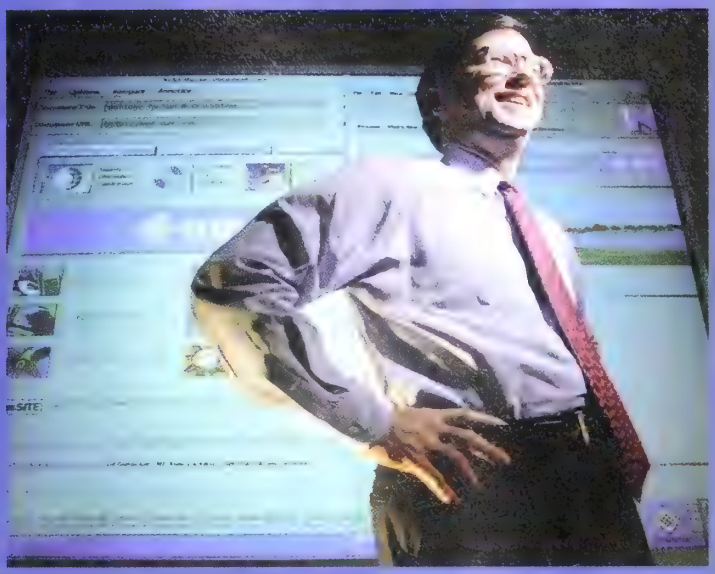
WHO MAY WIN

NETSCAPE Its Navigator browser could become the Windows of the Web.

SUN Java is gaining a fast following among programming's vanguard. The challenge: Turn Java into a moneymaking business.

SMALL DEVELOPERS Using the Net to distribute software opens the market to small developers that could not crack the old business.

"The Net enables the deconstruction and the construction of a new economic model for the software industry"
ERIC SCHMIDT
Sun Microsystems



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are information and collaborate. It means the PC is a more levant device to a broader set of people."

Gates's challenges may be more structural and managerial an technical. Microsoft finds itself in a position similar to at of IBM a decade ago, when the PC revolution began reatening the mainframe business: Even as he tries to ove into the new market, he can't afford to let up on efforts stay on top of the old industry. Operating systems and ckages such as Microsoft Office are where all the revues are now—and the source of the 85% gross margins that pport the massive organization. What's more, Gates condes that having the lead in PC software may not land him ar the top of the new order. "We're in a business where no nount of success guarantees future success," he says.

Meanwhile, thousands of programmers and computer degners are racing to prove that on the Web, there's a better ay—a chance to end software lock-in forever and perhaps make bloatware obsolete. The breakthrough technology? It could be a programming language from Sun Microsystems called Java.

Once a computer—no matter what brand—is equipped with Java "client" software, it can run any Java application that comes across the Net. Click on a hyperlink to your bank to check loan rates and you'll get the data as well as a Java "applet," a special application program to calculate what your monthly payments would be for different amounts and different loan lengths (page 82). Soon, little Java programs may hit your PC the way E-mail does. "The Web turned the Internet into a giant disk drive," says Mark Pesce, a San Francisco creator of Web software and a Java enthusiast. "Java turns the Internet into a giant processor."

JAVA'S MASSIVE BUZZ. Java embodies two key attributes of the new software business. It is designed specifically for the Net, and it is an object-oriented programming tool, based on the object language C++. Object technology turns conventional software on its head. Since the earliest days of computing, programs and data have been rigidly separated. The financial information you want to assess and the program that does the number-crunching are completely independent, yet useless without one another. With object technology, information and programming are merged. These "objects" behave the way objects in the real world would: One called "checkbook" might tally up your checking account, for example.

Object programming is ideally suited for the Net era—when computers will function more as multimedia communications devices and less as glorified calculators and typewriters. With objects, information comes to the forefront, and the program that places it on your screen recedes. "The result of this is that software takes its place as a means rather than an end," says Clifford J. Reeves, director of IBM workgroup architecture.

While Java is generating a massive buzz in the computer industry, it is just one of many new programming schemes that have suddenly become practical on the Web. Steven P. Jobs's

lance of Power

HO STANDS TO LOSE

SOFT The software giant has the most to lose if extend its influence to the Web.

TUS The Internet provides a low-cost way to do of the basic tasks performed by Lotus Notes. A endly Notes is a must.

ERS Some consumers will continue to shop in but more and more software will be distributr the Net.

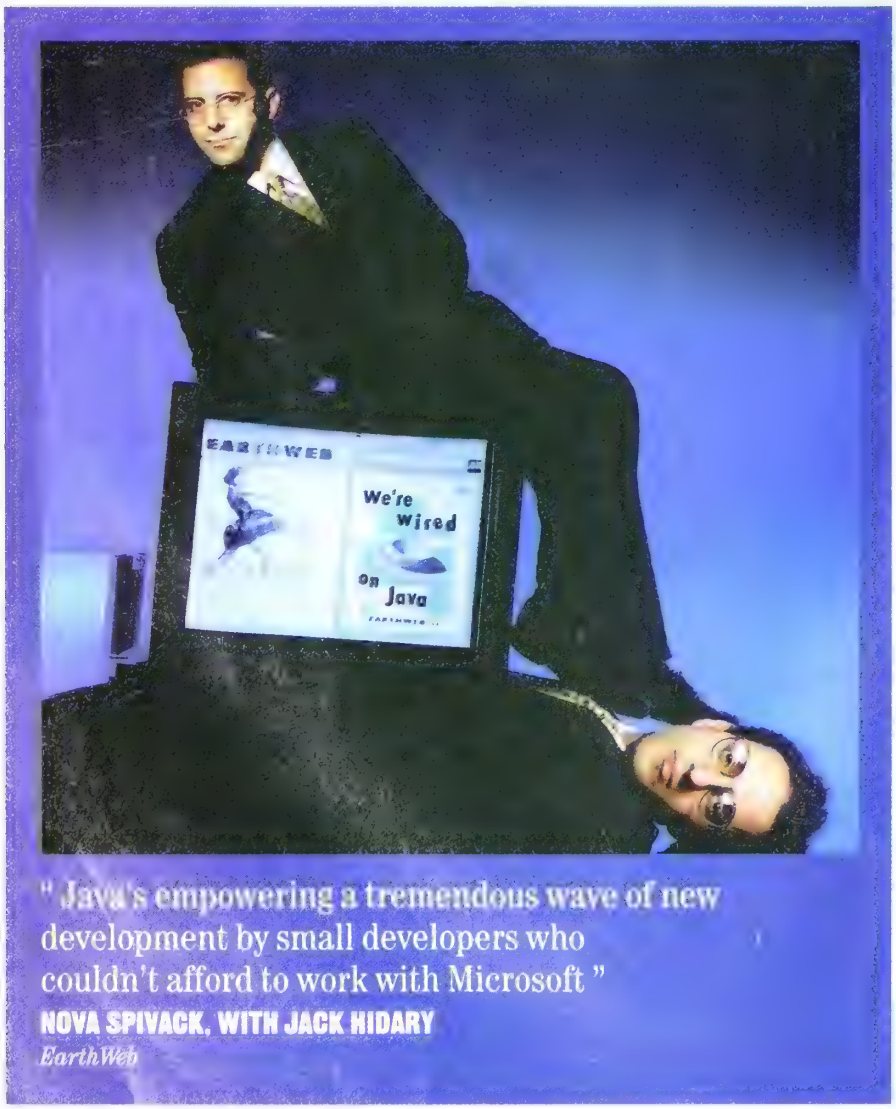
NeXT Computer Inc., for instance, is reorienting its object-programming software for the Net. "The two most exciting things right now in software are objects and the Web," says Jobs. IBM and Apple Computer Inc. have been promoting a distributed-object scheme called OpenDoc. Apple is now working on technology called CyberDog that lets developers link OpenDoc objects to the Internet. And separately, IBM is developing a framework for embedding different types of objects in Web documents.

There will be Java rivals, too. While considering licensing Java, IBM is working on its own "Web-executable" language. It's a combination of a new programming language called Bart and LotusScript, the development software that will ship with an upcoming release of Notes, IBM's Lotus subsidiary's groupware program. Netscape—which will bundle Java into the next release of its Navigator browser—has its own language, called LiveScript. It's based on Java, but easier to use. And Microsoft says it will have a Java equivalent in its Visual Basic language—once that is adapted to the Net.

From tiny one-person shops to startups staffed by prominent Silicon Valley executives, the Net is teeming with new Web software companies. Most wouldn't have a prayer in the conventional software market. But the Net represents a green field where no software maker dominates. "The Internet changes everything," says J. Neil Weintraut, managing director for technology research at Hambrecht & Quist Inc.

Start with something as simple as distribution. Today, software makers spend huge sums to crank out disks, put them in appealing packages, and move them through wholesalers to store shelves. Then, they spend millions more on advertising to get customers to go into the stores and buy. On the Web, a customer simply clicks a few onscreen buttons, and the software comes back across the line. When there is a new version of software, "you turn on your network computer and it will show up. There is no store to go to. There is no installation," says Ellison. Today, it can take anywhere from several minutes

MEET JAVA, THE INVISIBLE COMPUTER



"Java's empowering a tremendous wave of new development by small developers who couldn't afford to work with Microsoft"

NOVA SPIVACK, WITH JACK HIDARY
EarthWeb

What is this thing called Java? And how might it revolutionize the Internet, if not the entire software business?

Java is a computer language that Microsystems Inc. designed just for work computing. Any program written in Java can run in any computer or tal device, from PCs to machine tools. Sounds like like hocus-pocus? It's not. But there is a gimmick: To make this setup work, you must hide a separate Java "computer" inside each gadget.

The computer is a "virtual machine" piece of software that lets any computer simulate, perfectly, an ideal and standardized Java computer. As far as a Java program knows, this simulation is the genuine article—a complete computer with disk drive, display, memory, and everything else. The virtual machine executes Java programs by "interpreting" their commands one by one and commanding the underlying computer to perform all the tasks needed to write text to a screen or pull data from a disk, say. There's a small penalty to be paid in performance because of this interpretation step. But the two-step procedure also helps: No Java program is allowed to really penetrate your computer, so you can be reasonably certain it won't unleash viruses to infect your system.

There's vast potential in this computer-within-a-computer scheme: It could millions of otherwise incompatible computers all use the same Java software. At first, that will be limited to thousands of tiny programs—or "applets" stored within pages on the Internet's World Wide Web. Already, such programs are livening up static Web

several hours to download a program, but high-speed com- nications will make electronic distribution more practical. The way you pay for software will change, too. Instead of ying a one-time license fee, which entitles you to perpetu- use of a program, you may pay for software the way you y for a magazine. For example, software companies may of- subscriptions that, for an annual fee, entitle you to un- ited usage and the latest updates to a program or group of ograms. At the same time, all sorts of network services— ock quotes, digital photo archives, bill-paying services, and e like will be delivered online, along with software to use em. "What you're really selling is a service fielded over the ternet—the software comes for free," says John Landry, a mer Lotus executive and now an IBM consultant.

Eventually, all we'll think about is the content—we'll assume e software is there. "The lines between content and appli- tions are blurring," says Marc Andreessen, the 24-year-old ogrammer who helped dream up Mosaic, the original Web- owsing software, and is now vice-president for technology at Netscape. Helping the process will be Java and other Web-programming systems that make it possible to ship "interactive content" across the Net. An example might be an electronic catalog that includes a Java applet for ordering. When you hit the "buy" button, the program will execute on your computer—then vanish when the transaction is complete. Scott McNealy, Sun's CEO, calls it disposable software.

Bloatware, on the other hand, is just about the opposite: It's big, it's not cheap, and it requires a long-term commitment. And because of these characteristics, the biggest companies are almost guaranteed to win the bloatware game. After an investment of thousands of programmer-years of effort, Microsoft or Lotus or WordPerfect brings out a new, bigger release—loaded with features that most customers will never use, such as math equation editing. The latest Microsoft Office suite, for example, needs 55 megabytes of disk space and a Pentium-class computer to run at peak form. And installing these hefty programs has become a drawn-out affair.

For corporations, this has helped push the annual cost of sup-

imated cartoons, rolling stock and little spreadsheets that in- analyze incoming data. Millions uters now have the Java virtual e installed as part of Netscape nications Inc.'s Web-browser e and Sun's competing package, lotJava.

important, though, Java's abili- de incompatibilities could the rules of the software indus- and off the Net. With Java here, software companies would er have to create unique ver- their products for machines Microsoft Windows, Macintosh- Unix workstations. They could of compatibility even with com- not yet invented. Says Steven inovich, a Morgan Stanley & Co. er analyst: "Java could bring he total liberation of software ions from any [hardware] plat- nsiderations." Or, as Sun says it: once, run anywhere."

ORGANIC." And not just on com- The virtual machine program is only 64,000 bytes—so it may et used in cellular phones and TV ric E. Schmidt, Sun's chief tech- officer, predicts that with Java on a wireless network, you rowse airline flight data on a screen, book a seat, and pay for phone would only need enough e to run the Java applets that s way.

possibilities are nearly limitless. Veb, a New York Web developer, o let people shop online by drag- ctures of items into a shopping r example. "Java's empowering a dous wave of new development ll developers who couldn't afford with Microsoft," says Nova Spi- xecutive vice-president.

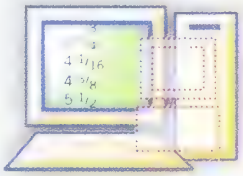
Java: "Hardware" Made Out of Software

The Java Virtual Machine is a compact program that could reside in any computer. Once it's there, the computer can run any Java applet that comes across the Network.

HANDHELD COMMUNICATOR/ FUTURE CELLULAR PHONE
Even a tiny gizmo can handle the Java client. A cheap handheld device, for example, could reach across the network and use a Java applet to book a ticket. The applet disappears as soon as the job is done.

APPLE MACINTOSH
To make sure her financial model is always up to date, an analyst programs her computer to automatically reach across the Net for fresh stock prices. A Java applet handles all the communications and display duties.

IBM-COMPATIBLE PC
The user orders an animation or film clip. The file comes back from the Internet, including the Java program—or applet—to play back the clip. The software stays on the machine to run other clips in the future.



Most critically, Java looks like it will play a key role in bringing additional functions to the Internet itself. What makes the Net so powerful is its strict use of standardized protocols, which let all computers participate in complex services such as the Web. With Java, new protocols could sweep the Net in almost no time and help new, Netwide services get off to a flying start. By distributing bits of fresh Java code across the Net, you could automatically bring new capabilities—a cool new compression program for running video, say—to millions of computers instantly.

The effect would be to greatly accelerate the Internet's already frenetic evolution. "Everything becomes more organic," says Mark Pesce, inventor of VRML, a Web protocol for displaying 3-D objects and spaces. Indeed, the Java virtual machine is even able to update itself automatically by calling over the Net for the latest extensions.

Still sounds like magic? There are skeptics, to be sure. But if Java only lives up to a portion of what Sun promises—and what Java programming junkies predict—the Net and the millions of computer users who gravitate to it are about to get a refreshing jolt.

By John W. Verity

GRAPHIC BY JOSA KNOUSE FRAMAN RIV

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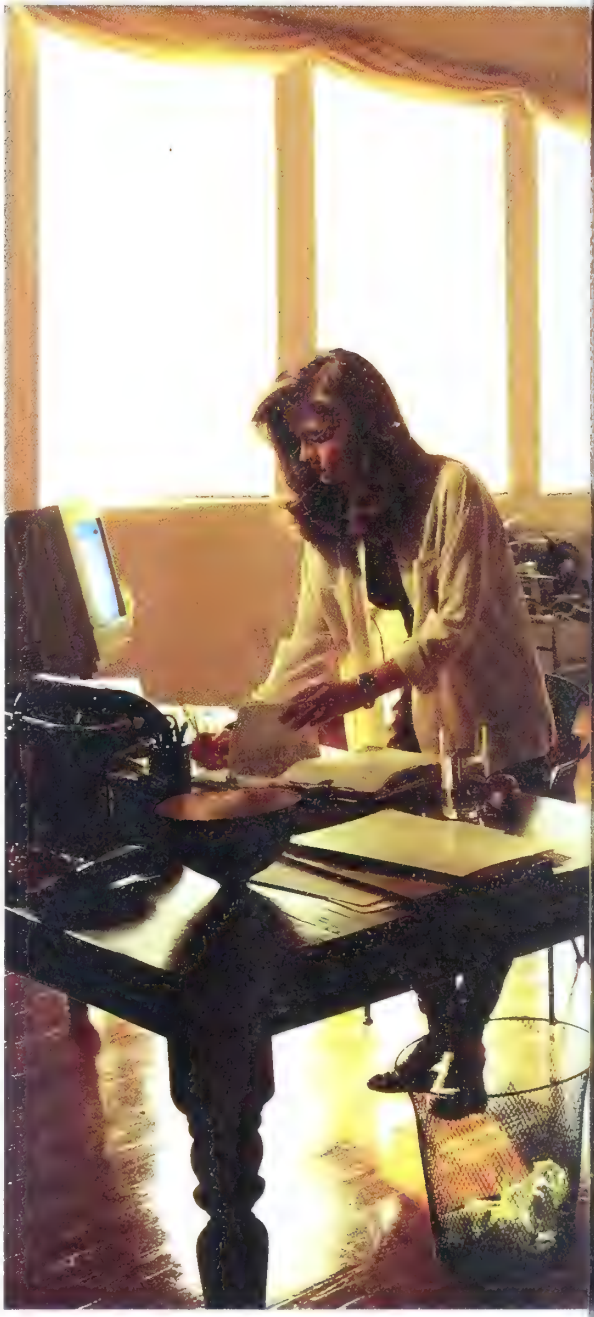

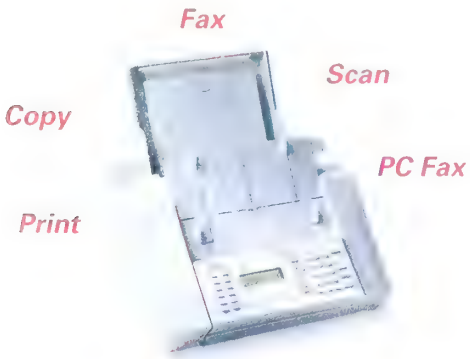

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porting a PC user to about $8,000, according to consultants Gartner Group Inc. Increasingly, corporations are weighing the value of upgrading software every two years or so. This year, many corporations are taking a go-slow approach to Windows 95 because of the huge costs of upgrading. "Customers can't afford to be on this treadmill of bigger, better, faster," says Mark A. Tebbe, president of Lante Corp., a systems integration company in Chicago. Adds Thomas P. Kehler, CEO of Internet software maker Connect Inc.: "The software industry has been arrogant."

The Web may be the method to stop this madness. Instead of waiting two years for the next massive update to your favorite office suite, you may get the latest features instantly off the Net. Or, instead of buying a program you may only use occasionally, you may be able to rent it. The code will come across the Net and will be usable for a specified period. Think of it as just-in-time software.

The same concept may also extend to operating systems—with serious consequences for how hardware is designed. If schemes such as Java catch on, computers might no longer need ever-bigger operating systems—or the expensive Intel chips they use today. Low-cost Internet appliances, perhaps based on video-game players, could get by on simple, streamlined operating systems that call out to the Net for additional features as needed. "I see the PC going through this era of complexity and back to simplicity," says Ronan D. McGrath, chief information officer for Canadian National Railway Co. in Montreal.

It's an idea that has a lot of appeal in Silicon Valley—not least because it has the potential to undo the dominance of the Wintel standard. One of the most fervent supporters of the idea is Oracle CEO Lawrence J. Ellison. Oracle has developed an operating system that takes up just 1 megabyte of main memory, Ellison claims, vs. as much as 8 megabytes for Windows 95. He says the program will be given away by Internet services providers and built in to computers and consumer-electronics gadgets by next summer. After that, says Ellison, it's downhill for the PC. "I really think that Windows 95 marked the zenith of the personal-computer industry."

"A DARWINIAN DEVICE." Ellison is also a big backer of Java, which is built into the planned Oracle operating system. He says the new setup will have special appeal for corporations that want to cut PC support costs. Improvements to the software will simply show up across the Net. "We're talking about enormous savings of not only dollars but time," he says.

Predictably, Intel CEO Andrew S. Grove dismisses the notion that masses of customers will give up their Pentium PCs for cheap Internet cruisers. In fact, he says, those PCs helped make the Net so popular. "Where the hell was the Internet before there were 30 million multimedia PCs out there?" he demands. The PC, he adds, is "a Darwinian device" that will adapt, as it always has. Indeed, even if somebody can produce a $500 I-way Yugo, there may not be many consumers willing to give up all the other things a $1,500 PC can do to buy it.

Grove, whose management mantra is to stay "paranoid," may be better prepared for a fight than his Wintel partner. A quick switch to a software market of cheap network applets could quickly turn Microsoft's size advantage into a millstone. Its sprawling 18,000-employee organization may be the most potent software-development force on the planet, but it is also the world's biggest bloatware factory—which needs megahits, not lots of cheap applets, to survive.

FED UP WITH THE MANIA. Microsoft, too, may be a prisoner of its own success. With an installed base of 100 million computers running Windows, the company puts more and more resources into keeping new versions of the program compatible with previous ones. In Win95, a big chunk of the 15 million lines of code are there just to ensure compatibility.

"You turn on your network computer, [the software] will show up. There is no store to go to. There is no installation"

LARRY ELLISON
Oracle

The new competition has no such baggage. Java—and programs like it—are "a direct assault on Microsoft's whole paradigm," says Robert Aston, president of market researcher Market Vision in Santa Cruz, Calif.

Leading the assault, Sun is busily seeding the Java software market. It's selling Java licenses at $125,000 a crack—and downloading free HotJava browsers with Java client to workstation and PC users on the Net. Licensees include Oracle, Macromedia, Toshiba, Borland, and Spyglass. Sun is also making Java freely available for research, education, or evaluation purposes.

The Java mania grates on Gates. "What's new about [Java] vs. other programming languages? Why is BUSINESS WEEK writing about Java?" he says. "Just having another computer language doesn't change the dynamics of any of these things." But Doug Henrich, Microsoft's director of developer relations, says the company "is looking hard" at licensing Java, since the market is clamoring for it.

For now, Microsoft is racing to get its own Web software going. It's pushing Visual Basic as the programming language for developing Web applications. A complementary software scheme, called Object Linking & Embedding (OLE), lets developers create objects—say a spell checker—that can be moved from one program to another. Originally designed for use on stand-alone PCs, OLE is being extended to operate across networks—no easy task. Blackbird, the proprietary "authoring" tool originally designed to create multimedia content for the Microsoft Network, is being reworked for the Web.

Because its tools are already used by thousands of developers who have invested hundreds of hours learning the intricacies of Windows software, Microsoft can be assured that

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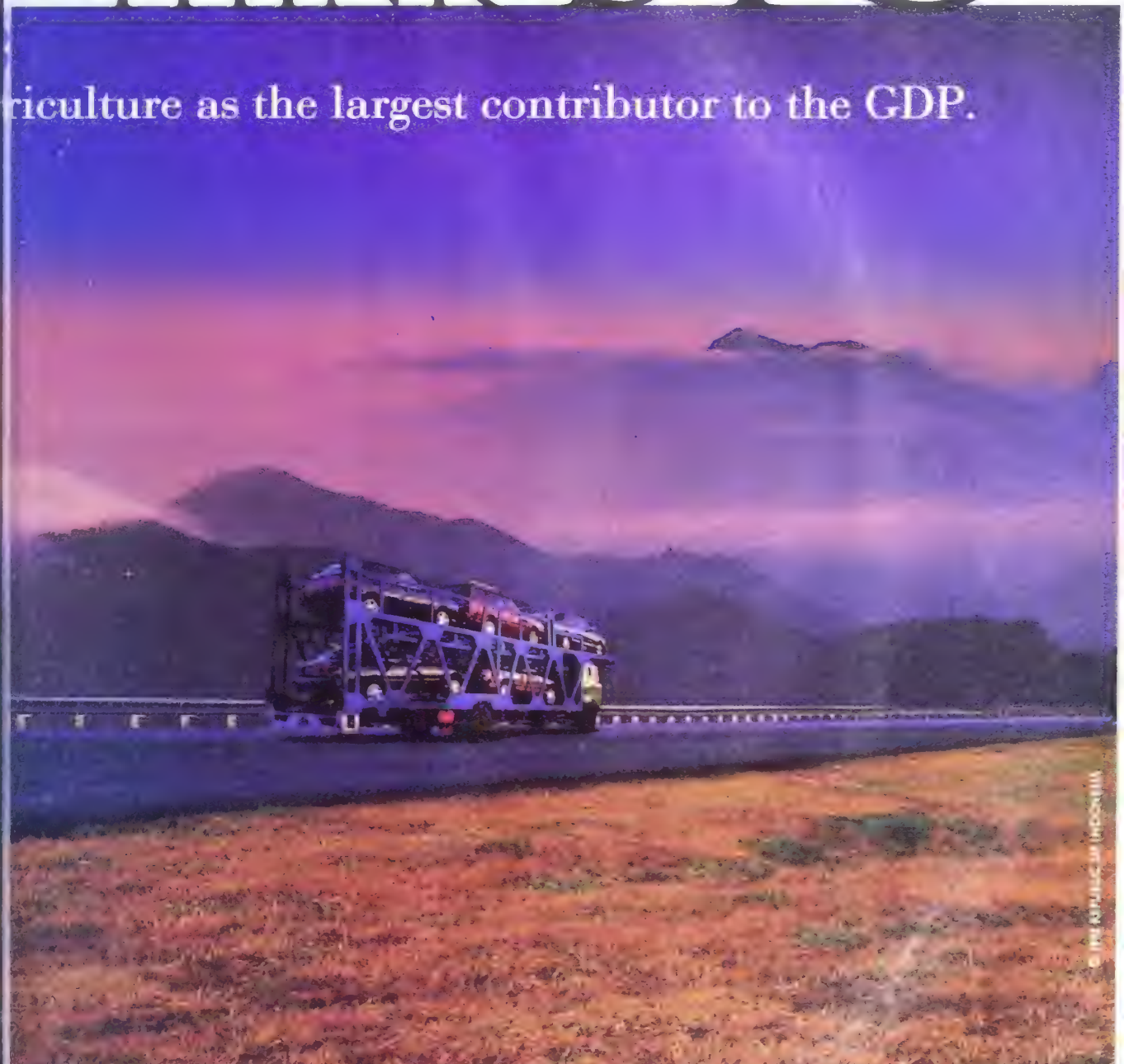

INDONESIA

Today's BIG opportunity

many will follow it to the Internet. There is already a thriving market for ready-made Visual Basic and OLE objects, such as spell checkers or chart objects, that developers can drop into their programs. Microsoft would like to extend those to the Net—before another scheme catches on.

At this point, Wall Street is betting on the challengers. The stories (often exaggerated) of Java's potential—along with a booming market for Web servers—has helped Sun's stock more than triple this year since June. Netscape's shares continue their gravity-defying rise, reaching a new high of $120 on Nov. 20. That gave the startup—with projected sales of $47 million this year—a market value of more than $6 billion, exceeding that of $11 billion Apple Computer.

No wonder Netscape is providing the business model for the new software industry. It won 70% of the browser market by giving its product away on the Net. Now dozens of startups are doing the same. Take Progressive Networks Inc., a Seattle-based startup that makes software for delivering real-time streams of audio over the Net. The company's Real Audio player—which is needed to play the sound clips—can be downloaded for free from links to dozens of Web sites. "The marching orders are: Get big fast, subjugate profit—even revenues. Just get your product out there," says Hambrecht & Quist's Weintraut.

How will these strategies ever pay off? Netscape has started to sell Navigator for $40 in stores, and bulk sales to corporations helped it turn its first profit—ahead of schedule—in September. But the master plan is to cash in by selling the lucrative "server" software that companies use to create and run Web sites.

SEEDING THE BROWSER MARKET. In its own way, Netscape hopes to gain the type of leverage on the Web that Microsoft has with the Wintel lock-in. Having seeded the market with millions of Navigator browsers, it is feverishly adding extensions to the HTML standard so that Web pages programmed with Netscape software will look their best only when seen with the Netscape browser. Anybody can use the extensions, but by the time they do, Netscape will be adding something else. That creates the potential for locking in operators of Web sites with the Netscape server. "When you see a Web page that says Netscape 1.1-enhanced, you're looking at the value of Netscape's stock," says David Winer, a veteran software developer and commentator.

Cover Story

Not to be out-Microsofted, developers there are working on their own browser and server software. The browser, called Internet Explorer, has been available since shortly after the August release of Windows 95, as part of an add-on package called Microsoft Plus! And it has been shipping with new Windows 95 PCs. A new version, Explorer 2.0, is now available. Like Netscape, it includes proprietary changes to the HTML format to enhance graphics and improve performance—and plant the seeds of software lock-in.

Microsoft could afford to lose the browser market. But it's determined not to give Netscape the strategically important server business. It is testing a Web-server program, dubbed Gibraltar, that it expects to release early next year. Gibraltar is based on the two-year-old Windows NT but adds features for handling HTML documents. Another product due next year, called Catapult, will add security features. The server market, expected to zoom from just $20 million this year to $300 million by the end of the decade, "is much more up for grabs," notes Sherlund.

Like its new competitors, Microsoft is giving away software to get a position in the Web market. Some 500,000 copies of the Internet Assistant, a program that converts Microsoft Word documents to HTML, have been downloaded free from Microsoft's Web site. In addition, Microsoft just came out with Word Viewer, a freebie for viewing or printing Microsoft Word documents on the Net without having Word installed on your PC.

"The Internet is nothing but good news for software.... It means the PC is a more relevant device to a broader set of people"
BILL GATES
Microsoft

Microsoft isn't the only software maker to feel the effect of the Net software revolution. Lotus, now an IBM subsidiary, is furiously attempting to adapt its information-sharing Notes program to the Web—before cheap Web-based products displace it. Lotus is trying to convince corporations that Notes offers more than they can get with simple Web tools. It's also adding features to smooth the flow of information between Notes and the Web and to let the Notes "client" view Web information. A likely next step: drastically cutting the price of the Notes "client" software.

"RECREATING WINDOWS." As the old gang learns new tricks, so do the newcomers. The next version of Netscape Navigator 2.0, due in December, will include tools for developing Web applications, E-mail, and workgroup software gained from the company's purchase of Collabra Software. In addition, Netscape will bundle "plug-in" programs, including Java, Adobe's Acrobat document viewer, and the Real Audio player. Netscape is also exploring other areas, including such applications as word processors. The danger: In its attempt to be more like Microsoft, Netscape could succeed—in the wrong ways. "Pretty soon, you end up recreating Windows," says Sherlund.

So who will come out on top in the new software business? Perhaps no single company. If the Web revolution really creates a level playing field, then the days when a few giants call the shots could be gone forever. Let the games begin.

By Amy Cortese, with John Verity in New York, Kathy Rebello and Rob Hof in San Francisco, and bureau reports

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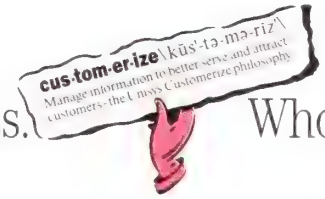
d the ***Customerize*** process. 

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STOCK MARKET

THERE'S LOTS OF LIFE AFTER DOW 5000

Low inflation, falling rates should drive stocks higher

By any measure, 1995 has been a hell of a year for the stock market. The Dow Jones industrial average smashed through 4000 in February and vaulted past 5000 on Nov. 21. The Standard & Poor's 500-stock index sailed through 500 in March and just topped 600. Both benchmarks are up more than 30% for the year, the best showing in two decades.

But while the stock market has been good to some, not many have a good word to say for stocks. Even November's surprising surge, in which the Dow leaped 268 points (chart), has been greeted warily. "The stock market's not nearly as strong as it looks," warns Philip J. Roth, a top market analyst for Dean Witter Reynolds Inc. And the *Investors Intelligence* poll of investment newsletters shows a paucity of enthusiasm—only 33.8% are bulls.

But stocks deserve a better rap. True, the stock market is not dirt cheap, but even at 5000 it's still a good deal. That's because the economy is growing slowly, inflation is low and nonthreatening, interest rates are falling, and investors keep pouring cash into the market. Equity mutual funds are taking in about $1.5 billion a week, according to AMG Data Services, and a good chunk of that is in long-term 401(k) investments. So even at today's heights, says A. Marshall Acuff Jr., portfolio strategist for Smith Barney Inc., "the backdrop for equities is still favorable."

And it should remain so for some time. George W. Jacobsen, president of the institutional investor Trevor Stewart Burton & Jacobsen Inc., notes that the economy has added manufacturing capacity all through the 1990s and labor is plentiful. Because of that, Jacobsen says, "we're more poised for growth in November, 1995 than we were in March, 1991, when w emerged from recession." And becau of the unused capacity, "we don't ha to worry about the Federal Reser tightening monetary policy." Indeed, t Fed's next move is expected to low short-term interest rates. Long-ter rates are already down nearly two pe centage points in the past 12 months— major force in driving stocks higher.

Even the contretemps between Pre ident Clinton and the Republican Co gress over the budget shouldn't dera the stock market. "Some kind of settl ment will emerge from all of this th will be positive for the markets," sa Warren B. Lammert, who runs the $1 billion Janus Mercury Fund. "We're n heading toward a major increase in go ernment spending."

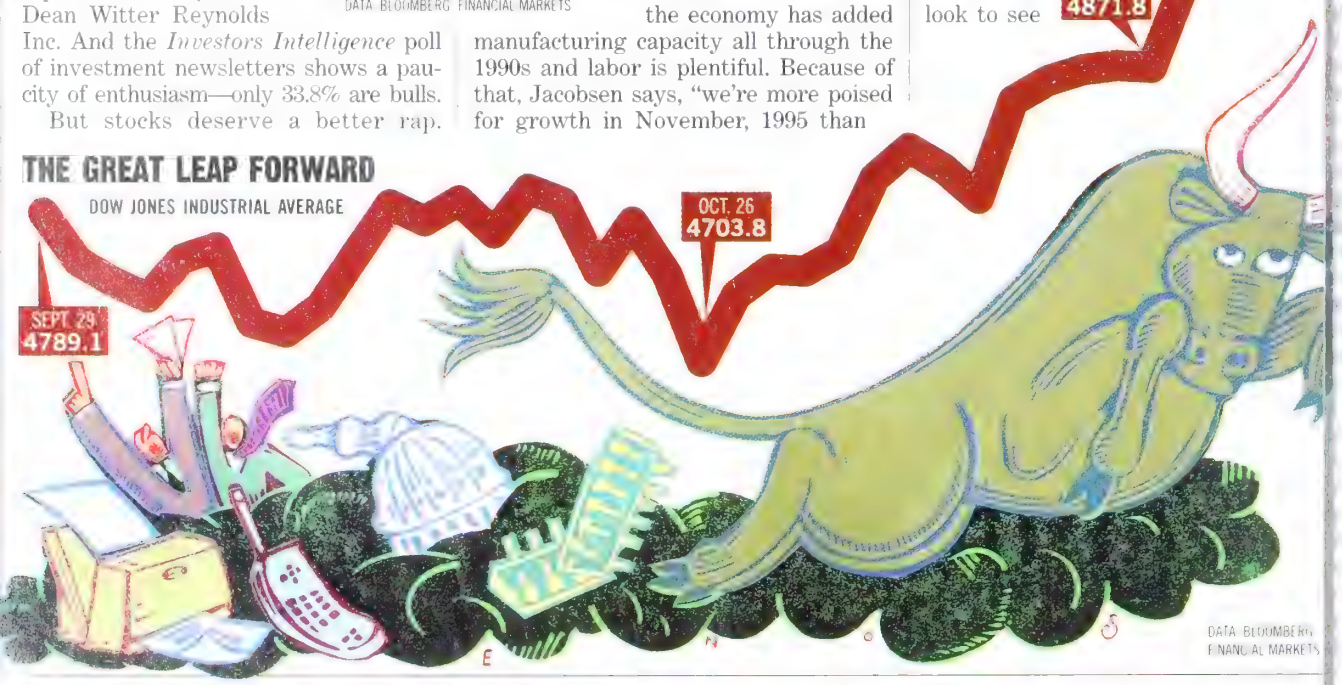
INEVITABLE CORRECTION. Sure, there's lot to worry about. Roth warns th though the blue-chip stock indexes a making highs, the "breadth," the nu ber of stocks following suit, is unimpre sive. "We had a new high in the Do and should have had 300 to 400 ne highs on the New York Stock Exchange says Roth. "Instead, we had only 13 And many analysts hold that a correcti is only a matter of time. "If we have a strong December, I'd expect a 5% pullback after the new year," says market watcher Laszlo M. Birinyi of Birinyi Associates. Over the last year, the market has hardly corrected at all.

Others look to see

The November Rally: What's Hot, What's Not

S&P Composite Indexes	
RETAILING	+9.4%
OIL	6.0
FINANCIALS	4.9
CONSUMER GOODS	4.7
HEALTH CARE	2.6
CAPITAL GOODS	1.5
UTILITIES	1.4
TRANSPORTATION	1.1
HIGH TECH	–3.5
S&P 500	+3.2%
S&P 400 MIDCAP	1.3
S&P 600 SMALLCAP	1.2

Price gain, Oct. 31- Nov.21
DATA: BLOOMBERG FINANCIAL MARKETS



ich stocks are making the market ve—and they don't like what they :. The big gains have been focused large-cap growth stocks like Coca-la, Merck, and Procter & Gamble. ıat's what you buy to ride out a re-sion," says Daniel T. Plager, a hedge-ıd manager at Citibank Global Asset .nagement. Other winners are big oil cks, which sport solid financials and dividends. Because of the rush to blue-chips, the S&P 500 topped small-) and mid-cap stock indexes (table). What worries many is the breakdown technology stocks. For November, : S&P High-Tech Composite Index is vn 3.5%. Even more troublesome to ny is that the tech group is evolving o a two-tier market in which both es are going the wrong way. Profit-e chipmaker Micron Technology Inc., 50, was pounded down from 95 in t three months. And world-class tech-ogy companies like Intel Corp. and ɔtorola Inc. have also come down ıre than 20% from their highs. On : other hand, the barely profitable ıternet companies," like Netscape mmunications Corp. and UUNet Tech-logies, sell at ethereal levels. Even er a Nov. 21 sell-off, the stocks trade more than 300 times 1996's expected rnings. "That's a warning flag if I er saw one," says J. Michael Pinson, ıo publishes *J. Michael Pinson's In-ıtment Digest* and runs a hedge fund.

CASE FOR COKE. Is it dangerous for : market if tech stocks stumble? Not all, says Janus' Lammert. "No one :tor can lead forever," he says. "It's couraging the market can transfer ıdership so smoothly." If investors ıred on stocks entirely, they would t their proceeds on the sidelines in-:ad of reinvesting in other companies. If the economy continues to grow ıwly, consumer growth stocks—bev-ıge, drug, food, and tobacco compa-:s—should continue to shine. The rea-ning: Investors will pay up for their rnings predictability. Sure, it may be ıgh to swallow Coca-Cola Co. shares ıding at 27 times expected earnings : 1996. But Coke's profits are fore-st to grow at 18% next year, several nes the expected growth rate of the P 500 companies. "You can make a se for Coke," says Elizabeth R. Bram-:ll of Bramwell Capital Management c. "Its price is not out of line in a ninflationary economy."

As stocks reach new highs and the ar draws to a close, many investors ight be tempted to heed the bears' ırnings and bank their profits. But member, those same bears were giv-g that advice this time last year—hen the Dow was 1300 points lower.

By Jeffrey M. Laderman in New York

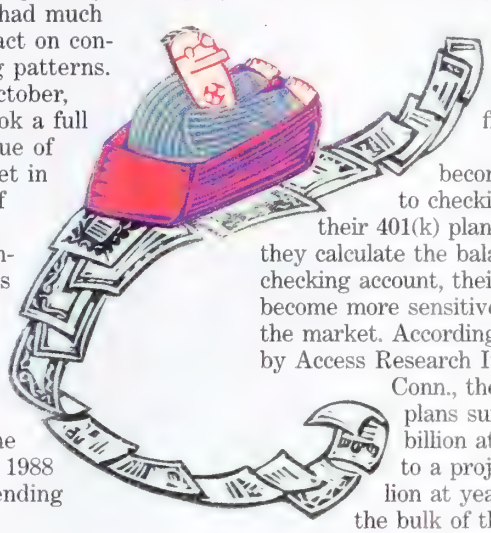
COMMENTARY

Michael Mandel

WHY ALL THAT MARKET WEALTH WON'T STOKE CONSUMER SPENDING

The stock market's stellar performance in 1995 is giving investors good reason to rejoice. But the euphoria on Wall Street doesn't mean a gold rush in the shopping malls—and that's a good thing for a savings-starved U.S. economy.

Historically, big changes in equity values haven't had much immediate impact on consumer spending patterns. The crash in October, 1987—which took a full 25% off the value of the stock market in only a couple of weeks—barely slowed the economy. Consumers pulled back slightly at the end of 1987, but quickly regained their confidence in the first quarter of 1988 and started spending again.



Over the past year, the value of individual holdings in the stock market has jumped by nearly a trillion dollars. But estimates by Laurence H. Meyer & Associates, a St. Louis-based economic forecasting firm, suggest that the short-run "wealth effect"—the response of consumer spending to rising equity values—is not very strong. The dramatic rise in the markets could translate into a $30 billion increase in consumer spending this year. That may seem like a lot, but compared with the $5 trillion annually that American consumers are spending already, it's only a 0.6% increase—hardly enough to guarantee retailers a merry Christmas.

MARKET-SENSITIVE. A reason for the weak response is that only about a quarter of American households own stocks and mutual funds, compared with 65% that own their own homes. That's why consumer spending is more sensitive to ups and downs in the real estate markets than to the gyrations of the stock market.

But this may change as more American workers put their money into 401(k) retirement accounts. It used to be that households owned big chunks of stock indirectly through pension funds, which meant that they never benefited from the gains resulting from a rising market. Instead, a stock market boom, like the one in the 1980s, simply meant that their employers had to contribute less money to maintain the defined benefits.

If Americans become accustomed to checking the value of their 401(k) plans as often as they calculate the balance on their checking account, their spending will become more sensitive to the state of the market. According to estimates by Access Research Inc. in Windsor, Conn., the value of 401(k) plans surged from $525 billion at yearend 1994 to a projected $640 billion at yearend 1995, with the bulk of the gains coming in equities. At the same time, defined benefit pension plans are becoming less important.

BIGGER STAKE. This shift in retirement funds is giving workers a bigger stake in the stock market's overall performance. Over the past year, with soaring corporate profits driving up the stock market, someone holding $20,000 in their 401(k) plan's stock index fund would have seen an increase of $6,000—probably as big as any salary raise they might have received.

But that doesn't mean that people should spend more because their retirement accounts are growing fatter. At a time when baby boomers are starting to feel the aches and pains of middle age, it's far more important that they build a nest egg for retirement than buy another toy or bauble for the holidays. And the U.S. economy will benefit more from a higher savings rate than it will from a short-term spurt in consumption.

Economics Editor Mandel watches his 401(k) account closely.

INSURANCE

HOW TRAVELERS GOT MOVING AGAIN

A tough new team has engineered a remarkable turnaround

At yearend 1992, Travelers Inc. was in deep trouble. Hurricane Andrew had torn a $400 million hole in the venerable insurer's balance sheet. More than $5 billion in bum real estate sat on its books. It lacked focus and was only a bit player in the emerging managed-health-care business. It was listing under a huge overhead. To the rescue came the acquisitive Sanford I. Weill, a man with a well-deserved reputation for finding hidden value in underperforming companies. He took a 27% stake first, then gobbled up the rest a year later.

Since then, Weill and two lieutenants—insurance group head Robert I. Lipp and Chief Financial Officer Jay S. Fishman—have managed a remarkable turnaround in an industry where the pace of change is often glacial. They have made major progress retooling Travelers' efficiency, strategy, and culture. "You can see it in the results," says Sanford C. Bernstein analyst Guy Moszkowski. "They've really improved the returns."

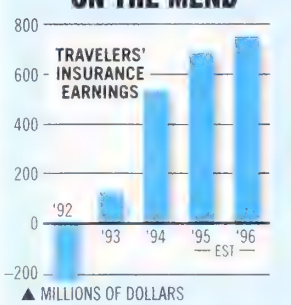
LIPP: *Slashing costs and staff*

NECESSARY PAIN. In attacking Travelers' ills, Lipp and Fishman began poring over the books. Steeped in the lean and mean tradition of Weill's Primerica Corp., the two executives were appalled at what they found: scores of vice-presidents who could approve purchases up to $25 million—as much as Weill himself could O. K. without board approval; a woman whose sole job was to exchange niceties with visitors as they entered the rotunda at Travelers' Hartford headquarters; travel and entertainment costs of $69 million; consultants being paid $17 million annually; more than $16 million annually on office supplies.

The two men got out their knives. "We sent out letters to all suppliers the first year," recalls Fishman. "'Dear Supplier, either we rebid your business or you lower your costs 15%.'" Within two years, overall nonpersonnel expenses were slashed 49%. Employment was cut in half, to about 15,000. Says Weill unapologetically: "It was all trimmed because it should have been."

Revamping strategy was more complex. Lipp and Fishman went to work on the balance sheet, selling off $3.5 billion in real estate, much of it in underperforming mortgages, for as little as 50¢ on the dollar—a move that freed up Travelers' capital. They struck a deal to merge Travelers' weak managed-health-care business with that of Metropolitan Life Insurance Corp. The new entity wa then sold to HMO giant United Healt care. The twin deals left Travelers wi $830 million in cash and 10,000 few employees. Ratings upgrades followe the improving financials. Lipp worked capitalize on synergies between Tra elers and Weill's Primerica Financi Services Inc. (PFS) and Smith Barne Inc., using the former Primerica units sell the insurer's products, such as va able annuities. Lipp began pushing Tra elers homeowners' and auto policie through the PFS network of 100,00 hard-sell part-time agents, who wo for commissions far below the typic 15% paid the independent agents wh were the backbone of the old Trave ers. Lipp hopes to have the policie available in 40 states by the end of 199

ON THE MEND



DATA: FOX-PITT KELTON AND SANFORD C. BERNSTEIN

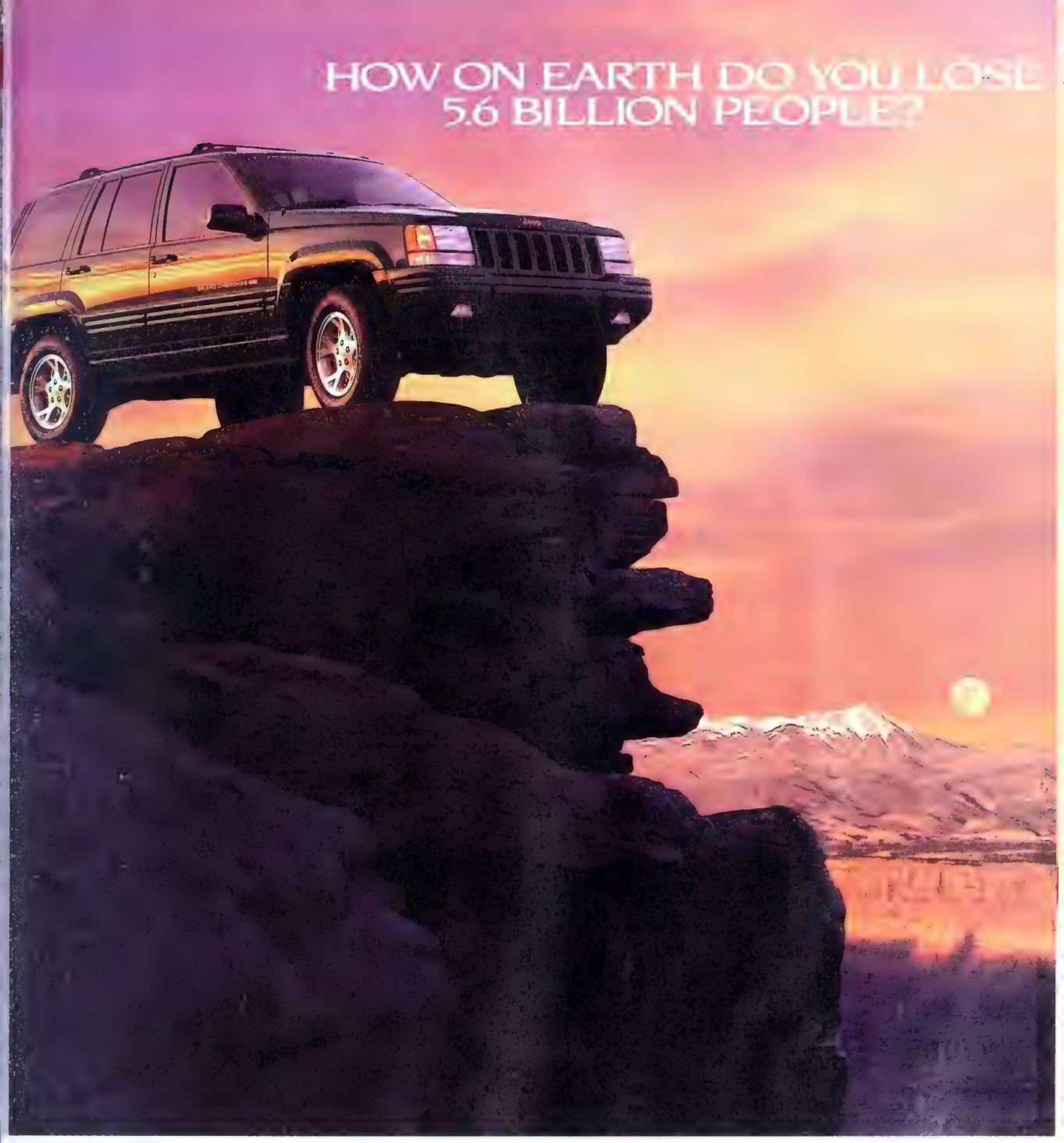
HIDEBOUND CULTURE. In commercial i surance, longtime head Charles J. Clark sharpened the focus to compete mo effectively in workers' compensation a specialty business liability. "Historica ly, we underwrote the agent," Clark says. "What we would say is, 'Give everything but....' Now we are sayin 'We want to be in these 15 classes business. Do you have any of this?'"

Lipp also is looking to change th hidebound culture of the old Traveler Employees are being rewarded wi cash bonuses and stock options. Cu tomers have noticed a differenc "They're hungrier now," says Thom M. Regan, risk management director drugmaker Becton Dickinson Co. "The want to make deals."

The net result of these initiatives that Travelers' insurance operations ha become a model of profitability and f cus. Return on equity, below 7% whe Weill took over, is no almost 12%, higher tha many competitors'. Ear ings, $380 million yearend 1993, should nea $700 million this year.

Travelers is now hun ing for more insuran assets and may emerg the winner in a beaut contest for Aetna Life Casualty's $5 billion pro erty and casualty bus ness. The insurer, thoug still faces the difficu task of expanding at a time when th industry is awash in capacity and mire in a decade-long soft pricing cycle. "W have done the easier part," Lipp right concedes. "The jury is still out as whether we can create real excitin growing businesses."

By Tim Smart in Hartfo



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GO WEST, BIG BANK

California's thrifts have started to attract bidders

For years the investment community has been waiting for the rush on California banking assets. A haven of large one-state institutions that collectively control $619 billion, or 13% of the nation's banking assets, California provides a number of golden opportunities for banks looking to go coast-to-coast. But until recently, concerns about the state's lagging economy and the quality of its assets have outweighed the positives and kept bidders at bay.

That may be changing. With First Bank System and Wells Fargo & Co. bidding to pay top dollar for the franchise of Los Angeles-based First Interstate Bancorp, investors are starting to eye a small group of the state's large thrifts as the next likely battleground. "With First Interstate in play, there really is a scarcity of [commercial banking] assets in California," says Keefe, Bruyette & Woods Inc. analyst Thomas F. Theurkauf Jr. "What remains are the thrifts."

BACK IN LINE. The savings and loans, which control 42% of banking assets in the state, have greatly improved returns in the last two years. Nationally, thrifts may get a boost from changes outlined in the Balanced Budget Act of 1995. By rebuilding the anemic fund that backs thrift deposits, Congress would bring the premiums thrifts pay for their insurance back in line with the much lower premiums paid by banks.

Some players have already made their moves. In August, First Nationwide Bank, Ronald O. Perelman's joint venture with Texas banker Gerald J. Ford, anted up $250 million in cash for San Francisco Federal Savings & Loan Assn. Other California S&Ls likely to be targeted include Great Western, H. F. Ahmanson, Golden West Financial, Coast Federal, and Glendale Federal. Buyers could include such out-of-state institutions as NationsBank, Banc One, Norwest, KeyCorp, and Washington Mutual.

Analysts regard Great Western Financial Corp. as especially alluring. One of the market's healthiest thrifts, Great Western has become more banklike: Fee-generating transactions make up 42% of the company's total deposits, compared with 28% at rival Home Savings of America, the state's largest thrift, with $50 billion in assets.

One big fan is Lord, Abbett & Co. partner E. Wayne Nordberg, a New York money manager who holds close to 4% of Great Western's stock. Nordberg argues that banks' overcapitalization will force them to look for acquisitions to maintain strong returns. Big operators, he says, offer the best potential returns.

For banks that prefer to buy with stock, the timing seems propitious. Bank stocks have enjoyed a great run this year, rising 40%. At the going rate, Sanford C. Bernstein & Co. analyst Jonathan E. Gray thinks a bank could pay a premium of as much as 32% for Great Western and 54% for Ahmanson.

Not everyone is so sure California's thrift merger-and-acquisition market is about to catch fire. Ahmanson CEO Charles R. Rinehart won't comment on his own company, but says that in ge eral, increased interest in the state thrifts over the past six months "mostly at the investment banker lev and a lot less in actual dealmaking."

Part of what's standing in the way pricing, according to James Marks, a analyst with Hancock Institutional E uity Services. He says there's a signi cant discrepancy between what potenti buyers are willing to pay and wh thrifts are asking. According to SNL S curities, the state's average price-to-bo ratio is 56% below the national averag But Marks expects California pricing firm up as buyers become more confide about asset quality and the thrifts' i proving financial performance.

And sellers may be willing to c their prices, as thrifts, which traditio ally specialized in low-margin busines es such as first mortgages, increasing compete directly with more profitab banks and nonbank rivals. "The ma agements of these companies realize f well that unless they can generate competitive 15% return on assets, the futures are in question," says Mark That may explain why Stephen Trafton, CEO of Glendale Federal Ban is "indifferent" to staying independen For the right price, Trafton says, h would sell to maximize shareholder va ue. As competition tightens, more thri CEOs may be seeing things his way.

By Nanette Byrnes in Los Angele with Amy Barrett in Washington

Handicapping the Thrift Buyouts

LIKELY TARGETS...

Great Western Financial

H.F. Ahmanson

Golden West Financial (World Savings & Loan)

Coast Federal Bank

Glendale Federal Bank

...AND LIKELY TARGETERS

NationsBank

Banc One

Norwest

KeyCorp

Washington Mutual

DATA: BUSINESS WEEK

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BY GENE G. MARCIAL

BLUE CHIPS HEADED FOR A BLUE STREAK

The maxim that value investor Stuart Shikiar sticks to: Catch a company in the midst of a turnaround, and you'll make a bundle. Consider his purchase of Eastman Kodak more than a year ago—just as new management started to restructure: The stock jumped from 45 to 70. Ditto for Sallie Mae: Bought at 35, it's now 66.

"McDonald's (MCD), American Express (AXP), and Apple Computer (AAPL) are on the same superhighway toward major changes in their fortunes," says the president of Shikiar Asset Management, which steers $100 million for families and individuals.

SHIKIAR'S VALUE PICKS

STOCK	52-WEEK HIGH	PRICE (NOV. 20)	ESTIMATED VALUE
AMERICAN EXPRESS	45⅛	43	65
APPLE COMPUTER	50⅛	38⅝	60
McDONALD'S	45⅛	43⅛	60

DATA: BLOOMBERG FINANCIAL MARKETS, SHIKIAR ASSET MANAGEMENT INC.

McDonald's reminds Shikiar of Coca-Cola in the 1980s, when it faced slow growth and a mature market. All that perked up when new management led by Roberto Goizueta took Coke overseas in a big way. He sees a similar prospect for McDonald's, which has been growing faster abroad than at home. On Sept. 30, McDonald's owned, operated, or licensed 17,000 fast-food eateries, of which nearly 7,000 were overseas—in 84 countries—and rapidly growing. In China, for instance, where McDonald's has two units, the company plans to have 500 by the year 2,000.

Earnings in the past nine months grew 16%, more than 50% of it from outside the U.S. "For the first time, McDonald's international profit margins are larger than those in the U.S.," notes Shikiar. McDonald's sees overseas sales rising and operating profits growing at a compounded annual 20% rate. Warren Buffett is rumored to be accumulating shares of McDonald's.

Buffett has a big stake in American Express, which Shikiar says is also in a turnaround: It's going back to its core business: credit cards. Shikiar notes that American Express has reversed the trend of losing card members and client establishments. He sees a return to 12%-to-15% earnings growth and 20% return on equity. He figures Amex will net $3.10 a share this year, $3.60 in 1996, and $4.27 in 1997, up from 1994's $2.68.

SHIKIAR: *Watching for turnarounds*

Apple Computer is a more speculative Shikiar bet: He thinks it is buyout bait for Hewlett-Packard, IBM, Sony, or Motorola. Here's why: The stock is a bargain for a company with a superior product—"demand for which has been outstripping supply." Also, it has a "Fort Knox type of a balance sheet: virtually no debt and flush with cash." Equally important is that "Apple's management is in an upheaval, a situation that invariably attracts a takeover," adds Shikiar. "If Apple fails to deliver on earnings in the next quarter, [CEO Michael] Spindler is out fast," predicts Shikiar.

THIS INSURER MAY BE UP FOR GRABS

When a Wall Street visitor talked to brass at Washington National (WNT) recently, he expected to get a routine rundown on how the Lincolnshire (Ill.) insurance holding company was doing. Instead, he got insight that prompted him to buy shares. He's convinced that management is looking for a buyer for the Big Board company.

Why would Washington National—whose main operating companies are Washington National Insurance and United Presidential Life Insurance—opt to be taken over? One analyst explains that Washington National is in a couple of "strong niches" but isn't large enough to flourish. The company focuses on three businesses: individual and group health insurance, disability insurance for teachers, and individual life insurance and annuities. Prices on health coverage have become more competitive, as carriers vie for market share.

As a result, Washington National's stock has been dormant but has perked up somewhat in recent days. "The stock has been selling at a low valuation of about 8 times earnings," notes one investment strategist at a New York securities firm.

He reckons that the shares, now at 23, are worth 33 in a buyout. The company posted revenues of $657 million last year and has a book value of about $33 a share. James English, director of research at Philo Smith, a Stamford (Conn.) investment bank, expects Washington National to make $2.70 a share this year and $2.90 next, up from $2.53 in 1994. The company didn't return calls.

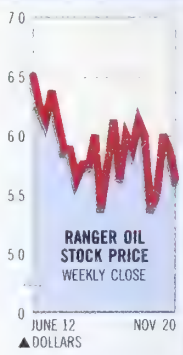
TAKEOVER BAIT IN THE NORTH SEA

After months of trailing the Dow, major oil producers have started to show some life. Small-to-midsize oil and gas stocks, however, have yet to catch up. Money manager Alan Gaines, president of Gaines Berland, a New York investment firm that focuses on energy, thinks they are the ones to bet on.

Frank Bracken of Southcoast Capital in New Orleans favors Ranger Oil (RGO), a Big Board-listed oil-and-gas company with operations in the North Sea, the Gulf of Mexico, and Western Canada. About 65% of its liquid production comes from the North Sea, while 78% of its natural gas emanates from Western Canada. It also has interests in Angola, Namibia, Ecuador, and Peru.

One New York money manager cites Ranger Oil's comparative lack of debt and strong cash flow as reasons for its investment appeal. One other attractive feature: He thinks Ranger Oil is a takeover target.

ARE RIVALS EYEING RANGER'S WELLS?



DATA: BLOOMBERG FINANCIAL MARKETS

Ranger's North Sea properties make it attractive bait for the majors exploring for crude in that part of the world, he says. "Ranger has been an operator in the North Sea for a quarter-century," he notes. It has drilled 100 wells and still runs more than 25. Few independents remain in the North Sea, and this "makes Ranger Oil a likely acquisition target for the bigger guys," says this pro, who puts the company's worth at 8 to 10 a share. He believes suitors include ARCO, British Petroleum, and Total Petroleum.

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STRATEGIES

KMART: WHO'S IN CHARGE HERE?

CEO Hall is as elusive as the retailer's recovery

October was a pretty lousy month for beleaguered Kmart Corp. Forced to discount heavily to move unwanted inventory, dragged down by turmoil in its executive suite, and faced with rumors of bankruptcy, the Troy (Mich.)-based retailer limped toward a surprisingly big third-quarter loss. So where was Chief Executive Officer Floyd Hall, brought in by the board in June to breathe new life into Kmart? In Cuba and Russia.

Cuba? Russia? Unfortunately for Kmart shareholders, Hall's trip wasn't part of a plan to extend American-style discounting abroad. Despite the growing fires on the home front, Hall left his company behind for a nine-day jaunt with fellow American execs and academics on a tour of Cuba, Russia, India, Vietnam, and Hong Kong that was sponsored by *Time* magazine. But a picture of Hall in front of the royal palace in Bangalore, India, in *Time's* Oct. 23 issue—the week Wall Street was ablaze with Chapter 11 speculation—added one more troubling question to Kmart's long list. "People are wondering if [Hall] is serious," grouses one analyst.

DASHED HOPES Would-be savior Floyd Hall "has managed to fritter away all the goodwill he had," says one analyst

BIG CHILL A lot of questions have been raised about Hall since he took the helm. And as Kmart enters the critical holiday season, investors are demanding answers. In his first interview since taking over, Hall defends his record. There are "no silver bullets" to turning around the $30 billion retailer, he says. "It's a tall order, but we can do this methodically." Billed as the antidote to Kmart's downward spiral under former CEO Joseph E. Antonini, the 57-year-old former head of discount rival Target Stores and Grand Union supermarkets stirred big hopes when he arrived in June. In just 10 weeks, Kmart's shares spurted 25%, to hit 16—a 52-week high.

But unhappy investors have heard little but bad news since. On Nov. 9, they got the latest: On sales of $7.98 billion, Kmart reported third-quarter losses from continuing operations of $118 million. For the full year, analysts polled by investment research service First Call Corp. estimate Kmart will earn only $55 million, from $296 million in fiscal 1995.

With its decline unabated, Hall hasn't convinced many investors that he's got a plan to fix the discounter. While Hall admits he's on the hot seat, he believes Kmart must be fixed "department by department." Despite calls from Wall Street to immediately close 500 stores, Hall plans to shut just 200 over three years. "We can't put a Band-Aid on our problems," he says. "This requires surgery." Yet Hall's lack of urgency may be squandering his grace period. "Hall has managed to fritter away all the goodwill he had," says Kurt Barnard, publisher of the *Barnard Retail Marketing Report*.

That may be putting it mildly. Aft Kmart's stock began to slide in late Se tember in the wake of company warnin about the third-quarter loss, Hall m with Wall Street investors and analys on Oct. 31. But Hall's lack of a stro turnaround strategy—or any hint what to expect for 1996 earnings—sent chill through the room. The next da Kmart's shares plummeted, and th haven't stopped: Since late Septemb the stock has plunged 43%, to around "We weren't convinced a turnaround w imminent, and we didn't want to spe 90% of our day worrying about it," sa James R. McGlynn, portfolio manager Tom Johnson Investment Manageme Inc., which just dumped 2.3 milli Kmart shares at a loss.

The biggest immediate worry? the critical Christmas season gets und way, Hall appears to have made litt progress resolving Kmart's core me chandising problems. Before Antoni quit under pressure last March, brought in four key outsiders to rev Kmart's executive suite. The team i cluded Charles Chinni, a former top e ecutive of R.H. Macy & Co. charg with improving Kmart's merchandisi

But Hall says Chinni's poor picks l to his abrupt resignation last month. ter he stockpiled goods better suited a department store than a discount The result: Kmart was stuck with hu inventories it could only sell at cut-ra prices. The blunder angered Hall a led to Chinni's ouster. "There are liter ly hundreds and hundreds of items th don't fit" Kmart, says Hall. Chinni co not be reached for comment.

Still, critics wonder why Hall did take a more hands-on role overseei

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the merchandising changes. "This stuff was going on for a while. Why is Hall only finding out in October?" asks one source close to the company. Hall defends his record, saying that he gave Chinni a chance to prove himself. Yet others say that Hall has done little to boost flagging employee morale; some insiders complain that Hall—who still lives in New Jersey and commutes weekly to Kmart's offices in suburban Detroit—isn't known for mixing with the troops. "Floyd Hall? I think I've seen him once in the auditorium," says one manager. Hall argues he is able to work harder without the distractions of family life.

With merchandise orders for Christmas made by Chinni months ago, investors also fear that the die may be cast for another weak quarter. Already, a $140 diamond tennis bracelet that is the centerpiece of Kmart Christmas promotions has come in for heavy criticism as far too upscale.

If the Christmas season does go poorly, Kmart's weak financial position could deteriorate rapidly. In fact, fears that Kmart could end up in bankruptcy proceedings have grown in recent weeks, partly based on a report by analyst Richard L. Church of Smith Barney Inc. arguing that Kmart might benefit by filing for Chapter 11. Then came news that Standard & Poor's Corp. and Moody's Investors Service Inc. may downgrade Kmart's debt ratings. A downgrade to junk-bond status could force the retailer to pay off $681 million in so-called put bonds immediately. Yet Kmart has little financial margin: It plans to use $2.1 billion of its $2.9 billion line of credit to fund Christmas inventories. If the bonds are called, Kmart would need a waiver from its bank to use the remaining credit to pay off the bonds. "If that option is exercised at this point, it could well push them into default," says Gerald Hirschberg, S&P's director of corporate ratings.

LIGHT-YEARS BEHIND. Hall and other Kmart officials are quick to deny they consider bankruptcy an option. "We feel that's totally irresponsible," says F. James McDonald, a director since 1987. "The balance sheet just doesn't warrant it." Indeed, while some Kmart vendors are getting nervous, they have been getting paid. "We still want the business, but we don't want to be left holding the bag if there's a bankruptcy," says one supplier. Kmart now has $470 million in cash, and it is negotiating with bondholders.

Yet even if Kmart gets over its short-term hump, the long term still looks gloomy. Rundown stores, poor merchandise selection, and an ill-functioning inventory system that often means popular goods are out of stock have left Kmart light-years behind rivals Wal-Mart Stores Inc. and Target. Hall's biggest problem may be that people just aren't coming to Kmart enough. According to Kmart's internal studies, Wal-Mart batters Kmart in every head-to-head comparison. Wal-Mart customers average 32 store visits a year, compared with 15 for Kmart.

KMART CEO HALL FACES BIG CHALLENGES

DATA: COMPANY REPORTS

The average Wal-Mart consumer is under 44, has children at home, and has an annual income just under $40,000. Kmart's core customer is over 55, with no kids at home, and earns less than $20,000 annually. "We have lost touch," Hall told analysts.

But rather than moving aggressively to fix those problems, say investors, Hall is tinkering around the edges. Although Kmart has already closed 300 stores since 1993, many on Wall Street argue 500 more stores among Kmart's 2,167 U. S. locations should be shut i mediately. But Hall claims that virtu ly all generate enough cash to cov costs, and he wants to improve th long-dormant productivity. For 19 Kmart expects to open 50 to 60 n stores, while closing about 70 a ye over the next three years. One reas for the go-slow approach: Closing a more stores now would likely fo Kmart into another huge loss, wh quickly renovating the laggards wo cost hundreds of millions.

Instead, Hall is testing a "pantry" s tion—a miniconvenience store selling s drinks, toiletries, snacks, and other hig volume goods. Hall insists that stocki convenience items could generate fi times the traffic in existing stores. B adding low-margin sections is har going to be enough. "This potato-ch strategy just ain't going to work," sa analyst Barnard. "People aren't goi to come to Kmart for potato chips a then decide they need to buy blouse, a computer, or a television.

CUSTOMER CRISIS. Beyond that, H has offered up few specifics oth than continued cost-cutting. Over t past two years, Kmart has undergone massive bloodletting, selling off its sp cialty stores for $3.5 billion and tri ming $500 million in corporate cos Hall has continued that strategy: A other $300 million in costs will trimmed in 1996, and he is selling money-losing automotive service ce ters for $112 million. Kmart's Canadi operations could be the next to g bringing in between $200 million a $400 million. Kmart also wants to p its unprofitable Builders Square ch on the block, but buyers aren't clam ing for it.

And divestitures alone won't sol Kmart's core problem: the need to re ovate its low-productivity stores a draw a younger, more middle-class cu tomer base. "There's a fuse burnin warns analyst Wayne Hood of Prude tial Securities Inc. "The question is, w Floyd Hall have enough time to get t job done?" For now, many of the cu tomers Kmart wants most are busy p rusing holiday offerings at competi stores. Rebecca Black recently stroll the men's apparel section of a Targ store in Sterling Heights, Mich., wi her 2-year-old son, Jake. "I went Kmart to buy Halloween stuff, but don't buy any clothes there," Black sa "They just don't last as long." Attenti Kmart Chairman: That's a problem th can't be solved in Moscow or Havana

By Bill Vlasic and Keith Naught in Troy, Mich.

ECHNOLOGY

KEY TEST FOR ENETIC TESTING

east cancer clue sparks an important debate

SKOLNICK: *Hunting for a second breast cancer gene*

his has been a banner year for Mark H. Skolnick. Last fall, a eam led by the University of Utah geneticist beat out 12 others epic battle to find a key gene that licated in up to 10% of all cases of cancer. Then, on Oct. 6, Skol- company, Myriad Genetics Inc., public at $18 a share, and the has since almost doubled. As co- er and executive vice-president for ch, Skolnick holds a 12% stake in d that is now worth $22 million. riad's exuberant reception on Wall t makes it one of the hottest ics companies going. It has al- s with three major drug compa- Eli Lilly, Bayer, and Ciba-Geigy. investors are betting that Skol- DNA sleuthing skills will give d an edge in finding more genes related to common genetic diseases, including heart disease, hypertension, and melanoma (table). But the short-term payoff is in the potential—both economic and medical—for the breast cancer test Myriad plans to introduce next fall. "This is the first genetic test that can tell someone's predisposition to getting a major common cancer," says Skolnick.

MUTANT MYSTERIES. But before it can become Myriad's golden egg, the breast cancer test faces some tough problems. Perhaps the biggest is deciding who should get the test, which could cost $850. Unlike most genetic tests available now, the BRCA1 gene test does not definitively say whether a person has or will get a certain disease. Therefore, some doctors—including one of Myriad's own advisers—favor giving the test only under a narrow set of circumstances. The outcome of the debate over who should be tested could have a big impact on the acceptance of future genetic predisposition tests.

Scientists do agree that the discovery of the BRCA1 gene is important. Women with breast cancer who have a family history of it and test positive for the mutant BRCA1 gene are more likely to have an aggressive form of the disease that could spread to the ovaries. Patients who test negative, on the other hand, may be spared from radical treatments such as a mastectomy plus radiation, and they may need less rigorous follow-up monitoring.

But questions remain about what role the gene plays in cancer. In the several generations studied by Skolnick's group—mainly white Mormons from Utah and other Caucasians—some 86% of the women with the mutant gene had breast cancer. Yet an additional 14% who inherited mutant BRCA1 genes did not get cancer during their lifetimes. Another mystery is how the 100 different mutations found so far in the BRCA1 gene lead to cancer.

Scientists also aren't sure whether women in all ethnic groups who have the defective gene carry the same 86% risk of getting breast cancer as the women in the original families studied. And they don't know how to determine the cancer risk for women who have the defective gene but no family history of the disease.

DOCTOR'S CALL. These uncertainties could limit the market for Myriad's test. One influential group, the American Society of Human Genetics, recommends that only those patients diagnosed with breast cancer who have a clear family history of the disease be tested. That's the group that would most obviously benefit from the costly test.

Even Dr. Barbara Weber, a University of Pennsylvania breast cancer specialist who sits on Myriad's board of clinical advisers, is cautious about the BRCA1 test. Unlike the genetics society, she thinks it can be offered to women who do not have breast cancer. But she says the women should have a strong family history of breast cancer to be

TROUBLE SPOTS IN THE CHROMOSOMES

yriad Genetics aims to develop tests for genetic abnormalities that lead to disease. Here are its prime targets:

CA1 Breast Cancer A white woman in the U.S. has a 10% lifetime risk of developing breast cancer. But if has a mutation in BRCA1, the odds rise to 86%. Myriad is expected to sell st next fall for $850.

CA2 Breast Cancer Myriad thinks this gene accounts for nearly all cases of genetically related breast cer in women under 50 that aren't caused by the BRCA1 gene. Myriad is in ree-way race to find the gene.

T Hypertension A defect in this gene may account for as many as one-third of the 55 million cases of salt- iced hypertension in the U.S. If a study confirms the gene's role, Myriad ld have a test out next year.

S1 Melanoma An abnormality in this gene may play a role in melanoma and other cancers. Myriad has cloned 1 and two related genes and is studying their function. It says a test could aunched in 1997.

D1 Heart Disease A flaw in CHD1 that's carried by about 6% of the population is associated with increased of heart disease. Myriad has not yet cloned the gene but has determined its roximate chromosomal location.

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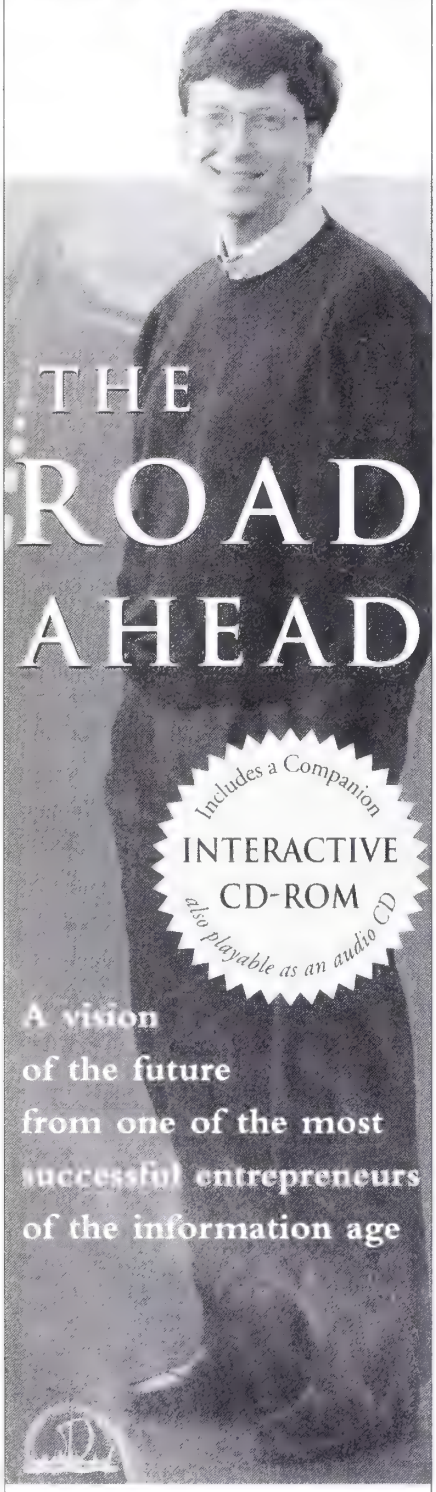

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tested. Indeed, a recent study by the University of Texas showed that women with nonfamilial cases of breast cancer have normal BRCA1 genes. "Outside the setting of families with a history of breast cancer, we're not sure what to tell people" about the meaning of a BRCA1 test, she says.

Skolnick disagrees. He thinks the test can be given to anyone diagnosed with breast cancer, not just those with a clear family history. He believes that it will be valuable for deciding on a course of treatment as well as providing valuable information to other family members.

For Myriad, the outcome of the debate will have a big impact on its potential market. It's the difference between offering the test to 180,000 diagnosed breast cancer patients annually, or to just 18,000 or so patients with known family histories of breast cancer and possibly their immediate relatives.

Ultimately, doctors will make their own decisions on whether to make the BRCA1 test available to their patients. Historically, they have proved reluctant to recommend genetic tests when they can't give patients a clear interpretation of the results—as would be the case with women who have no family history of breast cancer.

REACHING OUT. Myriad faces still another hurdle: competition. By being the first to discover BRCA1, the company is likely to receive broad patent protection covering products related to the gene. But that has not scared off Oncormed Inc. in Gaithersburg, Md. The genetic-testing startup has been offering a BRCA1 test for the last six months at a handful of research centers. The test is targeted to a narrow patient population: It compares the BRCA1 gene in a known cancer patient with the same gene in other family members.

Myriad Chief Executive Peter D. Meldrum maintains that Myriad's test will be much more accurate than Oncormed's—and more useful. A key difference is that Myriad is compiling a huge database documenting the relationship between BRCA1 mutations and different ethnic groups to help in patient counseling. Myriad hopes the information will give the test a broa reach than the largely Mormon po lation already tested. Still, until Myria test becomes available, Oncormed co chip away at Myriad's business. " missing the advantage of Myriad's te says Dr. Kevin Hughes, coordinator the breast cancer treatment center the Lahey Clinic outside Boston.

HYPERTENSION TEST. David K. Stone biotech industry analyst with Cow & Co., which served as Myriad's vestment banker, estimates that r enues from the BRCA1 test will re $17 million in 1997 a $67 million in 1998. that depends on seve assumptions. Myriad m conduct tests on 4% of tients worldwide di nosed with breast can in 1997, rising to 11% next year. That's a h percentage, given t only 5% to 10% of wom with breast cancer ha strong family histories the disease.

Stone is also assum that Myriad scientists v isolate a second bre cancer gene also implic ed in the hereditary fo of the disease—cal BRCA2—and will inc porate it into its BRC test. That would boost test price from $850 $1,000 a pop. That's a given. Myriad is volved in a three-w race to find the BRC gene, and there's no gu antee it will win this time.

Luckily for Myriad, it has other te in the pipeline. One, for salt-induc hypertension, could be introduced n year if the results of a National Ins tutes of Health study confirm the l between the gene and the disease. A a test for heart disease holds enorm potential. Myriad thinks it is close finding the gene, called CHD1, whic believed to be carried by an estimat 6% of the U. S. population.

If Myriad succeeds—and if Ston revenue prediction is right—its bre cancer test alone will more than dou the size of the $10 million DNA testi market in just one year. At t prospect, Skolnick doesn't balk. " one's done anything like this befor he says. Indeed, it is a significant le forward for genetics. But it's also a le into the unknown.

By Geoffrey Smith in Salt Lake C

> Myriad's breast cancer test alone could more than double the size of the $10 million DNA testing market—and there are more tests in the pipeline

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'UNMASKING' A CRAFTY MICROBE

GONORRHEA INFECTS ABOUT 1 million people in the U.S. each year. Searching for a vaccine, researchers have focused on hairlike structures made of a protein called pilin that protrude from the gonococcus bacteria and attach to host cells. But the protein constantly reshuffles the set of amino acids it presents on its surface. The host never sees exactly the same pilin twice, so it can't mount an effective immune response.

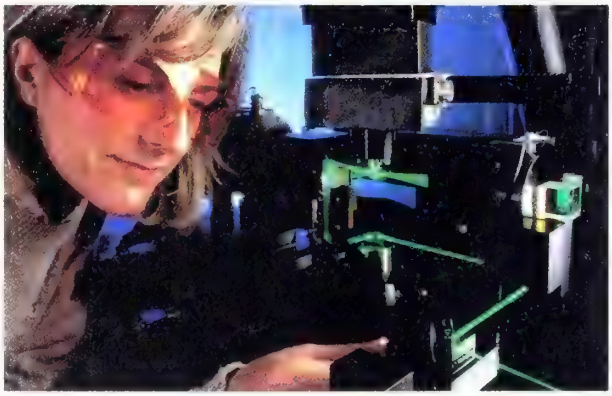
By crystallizing the protein, bombarding it with X-rays, and analyzing the diffraction patterns with computers—a technique called X-ray crystallography—scientists at Scripps Research Institute in La Jolla, Calif., have produced 3-D images that show the precise arrangement of atoms in different parts of the protein. Biologists John Tainer, Katrina Forest, and Hans Parge pinpointed a region on the folded protein consisting of 20-odd amino acids that are most prone to change, which Forest calls the protein's "mask." The rest of the structure—about 140 amino acids, depending on the particular bacterial strain—remains more or less constant.

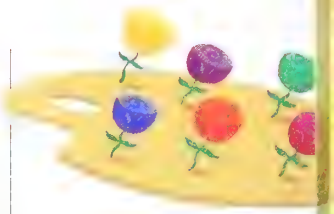
The Scripps team is now imaging pilin from different strains to confirm the mask's location. If they're right, they should be able to strip the mask away, create copies of pilin representing only the relatively constant portions, and mass-produce those as a vaccine. Since the pilin protein in gonorrhea is similar to that in meningitis and cholera, an immune response to such a vaccine could attack those bacteria as well, allowing for a 3-in-1 vaccination. But refining and testing such a vaccine could take another 10 years.

HOLOGRAMS HEAD FOR THE TRENCHES

THE COLD WAR IS OVER, BUT THE MILITARY STILL CRAVES whiz-bang technology. To win future wars, reasons the Defense Dept.'s Advanced Research Projects Agency, soldiers will need lightning-fast access to oceans of data and digital images. So ARPA is picking up half of the $32 million tab for a five-year research program to commercialize a holographic data storage system (HDSS).

Drawing together researchers at Stanford University, IBM, GTE, Rockwell, and other companies, the HDSS consortium is using lasers and other electro-optic components to create two-dimensional patterns—called "pages"—of light and dark regions representing digital bits. These are recorded in light-sensitive crystals as holograms. Thousands of pages representing billions of bits can be stored in the crystal (photo). And each page can be recovered by illuminating the crystal with the unique reference beam that was used to record that page. A gigabyte of data that fits on today's disk drives could be crunched into a space the size of a pencil eraser. And data could be transported in and out of the crystals at a rate of 1 billion bits per second, or about 10 times the speed of today's drives. The consortium hopes to have a prototype for write-once recording in three years.





INNOVATIONS

■ Robert Griesbach of th U.S. National Arboretum Beltsville, Md., claims that b genetically manipulating flower's acidity, he can obta an unprecedented variety flower colors. One of his f vorites, he says, is the fir "true-blue petunia." The tec nique could lead to a rainbo of new flower colors ar could also alter the acidity tomatoes and other fruits t make them easier on th stomach.

■ The sweetest sounds i your automobile may soo come from above—no, n from the celestial sphere but from the roof. Nois Cancellation Technologies In of Stamford, Conn., a comp ny that was formed to za unwanted sounds with "ant sounds," has now developed way to use the roof lining i a car as a speaker. The tec nology delivers what th company calls "an extraord nary surround-sound effect and eliminates the need f speakers in the dash and i the rear.

A BIONIC BREAKTHROUGH FOR THE DEAF

DOCTORS AFFILIATED WITH the University of Melbourne recently grabbed headlines in Australia by implanting a new form of bionic hearing aid in the brain of a woman who had been deaf for a decade. She now hears some sounds via a small pad of electrodes attached to the part of the brain that receives signals from the ear.

That technology, called an auditory brain-stem implant, was developed at the House Ear Institute in Los Angeles. With little fanfare, doctors in the U.S. have recently implanted 10 of the devices in patients, as part of a clinical trial that could lead to commercial products by 1998. The procedure is no panacea for deafness. It will cost $25,000 and be available only to patients who have tumors on both auditory nerves.

Still, the rapid progress in electronic brain implants offers hope for repairing other nervous-system defects. Research funded by the House Ear Institute and Cochlear Corp. in Englewood, Colo., has already enabled a paraplegic in Maine to stand on his own feet. Case Western Reserve University hopes to restore some hand functions in quadraplegics. And researchers in the field think they will one day be able to give sight to the blind.

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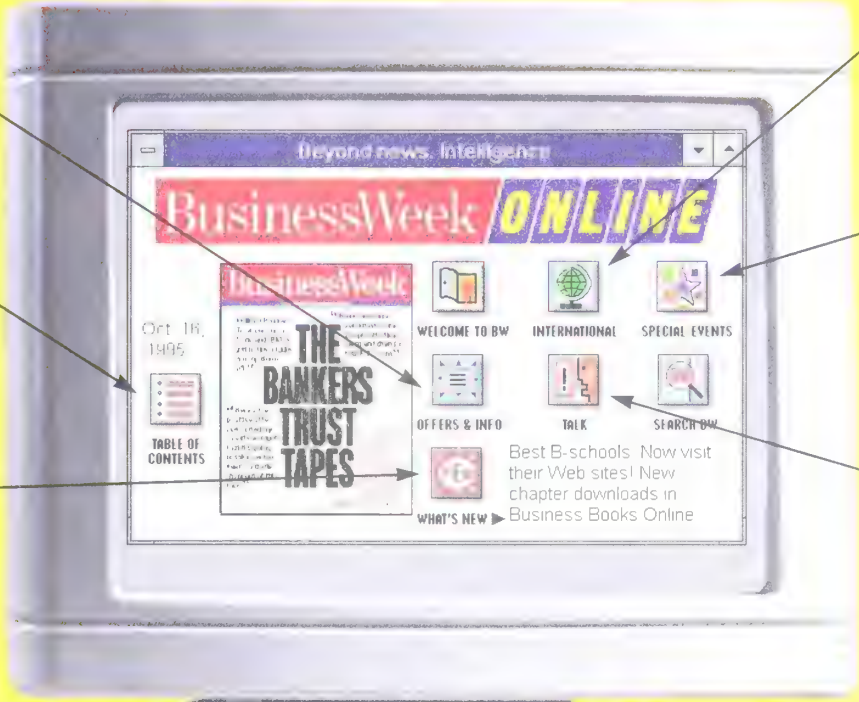

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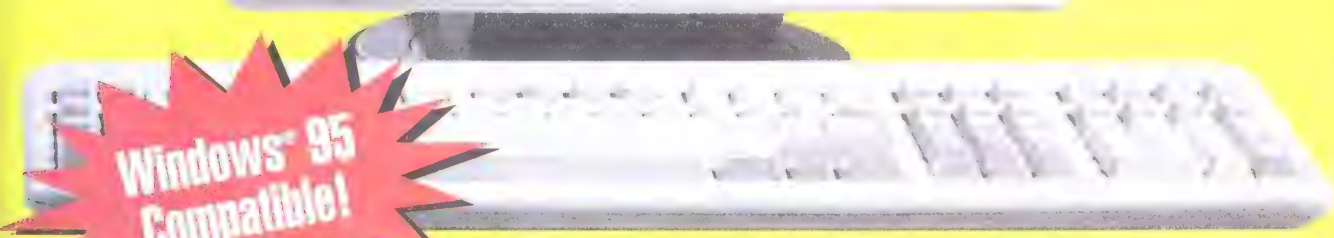

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"This industry is unstable. Costs are too high. Supply and demand are totally out of balance. There are too many hospital beds. There are too many specialists. Ultimately there will be a fundamental change in the way health care is delivered. It is inevitable."

Robert A. Go, managing director of the Deloitte & Touche LLP Health Care Practice spoke bluntly as he opened The 1995 Business Week/Deloitte & Touche LLP Health Care Summit.

"Physician groups, hospital systems, HMOs, insurance companies, supply companies, distributors, pharmaceutical companies: all are talking about integration — to manage care, to manage costs, to achieve advantages in the marketplace. If you ask why they are seeking integration, they talk about the need to achieve leverage."

The holy grail of leverage was the overarching theme of this annual health industry leadership gathering. Leverage by controlling costs, adding value, taking on risk, gaining control of distribution

y Scott Shuster, onsultant to Business Veek Executive rograms, and chair of he 1995 Business Week/ Deloitte & Touche LLP Iealth Care Summit

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"Ultimately there will be a fundamental change in the way health care is delivered. It is inevitable."

Robert A. Go, managing director, Deloitte & Touche LLP Health Care Practice

channels, or by simply being bigger. They also questioned whether their focus on achieving leverage might not be a colossal error. Can even the largest enterprise really achieve control in a sector as large as health care?

"We will move through a period of entrepreneurial testing," said **Dr. A. Bruce Campbell,** chief medical officer, Aetna Health Plans, "as companies try to achieve integrated financing and health care delivery. There will be trial and error in business relationships." Go warns, "I expect to see many of these strategies fail. Perhaps even 80%."

The Angry Hospital CEO

The 1995 Business Week/Deloitte & Touche LLP Health Care Summit was a discussion among 100 leaders from every corner of the industry. The exchange of perspectives was sometimes harshly direct. One hospital CEO, angry about pressures being brought by corporate purchasers of health care declared, "All your talk about quality-of-care is just baloney! You have no desi for quality. You care only about price. When will you see that quality-of-care is a measure you should be interested in? I hope it is before the quality of American health care is destroyed."

Information Frustration

Dr. Campbell addressed the angry hospital CEO, explaining that, "when they can, HMOs always purchase health care services on the basi of value. No one wants to make decisions on price alone. But with thousands of health care providers and few standardized measures of health care quality, identifying value is an immense challenge. That's the real problem: agreement on what is most important, on what should be measured, and on how to measure it. We are not there yet."

Getting there may be a big business in itself. **Richard R. Howard**, president of elder-care provider Genesis Health Ventures sees "immense opportunity for entrepreneurs in health care quality information. Today most of

Doctor Power!

Larry Mathis president and chief executive officer, The Methodist Hospital System

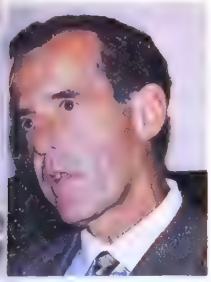
There were noticeably few physicians on the Summit panels, a stark reflection of an unfortunate truth: as a group, doctors are not organized and wield very little industry power.

Though out of sight, the physicians were hardly out of mind. The consensus among the business leaders at The Summit is that they recognize the critical role of the physician, and that they are waiting for the doctors to abandon their current resistance to change, and hoping they will seize the leadership role in reforming the health care business.

"If we are going to re-make the health care delivery system in this country," said **Larry Mathis**, president and chief executive officer of The Methodist Hospital System in Houston, "that change will come from physicians who take a new approach to the practice of medicine and embrace different incentives. It is important that the doctors be enthusiastic about the change, and lead." But how to encourage that buy in? How to shape those incentives?

Patrick J. Casey, executive director of the Health Action Council of Northeast Ohio, a coalition of Cleveland-area companies that collectively buy health care services for their employees, explained that "older physicians feel they have lost control. There is palpable anger. But this is already beginning to change. Younger physicians can look at an outcomes study of their performance without anger, and say to themselves, 'Of course; how else are we going to improve our quality as physicians unless we study our treatment outcomes?' Older doctors still tend to see such studies as intrusion."

"How the physician component gets reconfigured will vary by region and will play out in every conceivable way," said Mathis. "In our case we are working on an equity model for primary care physicians, where they are part owners of their segment of the business. This should align doctor incentives so that the physicians will minimize expensive health care resource utilization while maximizing health care quality outcomes."



Our information ; more advanced han most of ur customers re able to use, o we are helping hem get up to peed."

.obert D. Walter
hairman of the oard and chief xecutive officer, :ardinal Health, Inc.

the information available about health care providers is nothing more than a list of services and prices. That's because there is tremendous overcapacity and where you have overcapacity, price is always the driver, so that's the information purchasers require: pure price information. But," he continues, "once supply equals demand, providers will no longer be able to succeed on low price alone. They will need independently-developed standardized information that shows they've got the quality, the positive health outcomes."

et Me Tell You About Your usiness . . .

ealth supplies distribution doesn't get much ention in the health care debate. But this ulti-billion dollar sub-sector is surging to ominence as distributors take on roles far yond what **Robert D. Walter**, CEO of Cardinal ealth, one of the largest pharmaceutical stributors, calls "the rag merchant mentality" days gone by.

F. DeWight Titus, vice-chairman of General edical Corporation, the nation's largest distrib-or to physician's offices, surgery centers, and tended care facilities, described what he calls he challenge: distributors being called upon to o things that they have traditionally not done, d to take on responsibilities they have never en in the past." Some distributors now offer apitation" — a promise to provide all the supplies needed for one set fee. And they will place their own staff on site to run a hospital's supply management operations.

Data is key to the new science of medical supply distribution, and the strong suit at Walter's Cardinal Health. "We place an information device at each customer's location — a powerful analytical tool. Today our information is more advanced than most of our customers are able to use, so we are helping them get up to speed to benefit from all we can tell them about their own business."

In the maelstrom of industry integration, independent distributors appear secure. As Robert Go of Deloitte & Touche LLP explained, "Independence is a competitive advantage. When a distribution channel is owned by a manufacturer, people routinely question whether the data from that system may be biased. Independent systems do not induce such market skepticism."

High Tech, Low Tech — No Tech?

Costly drug treatments that used to be prescribed with alacrity now face fearsome HMO scrutiny.

"The payers are finally looking at the total cost of care. That's good news for the pharmaceutical industry."

Robert E. Cawthorn
chairman of the board, Rhône-Poulenc Rorer, Inc.

As health care provider organizations merge and grow, they demand bulk prices, putting a further squeeze on margins at pharmaceutical companies. The highest-cost technologies of health care are also political lightning rods. When the health care reform issue re-heats, pharmaceutical price caps may return to the political agenda. Little wonder that research and new product development budgets have been scrutinized across the drug industry.

But health innovation specialists at the Business Week/Deloitte & Touche LLP Health Care Summit generally took a sanguine view, saying that they remain confident that the future of pharmaceutical innovation is secure.

The 1995 BusinessWeek/ Deloitte & Touche LLP Health Care Summit

"With thousands of providers and few standardized measures of health care quality, identifying value is an immense challenge."

Dr. A. Bruce Campbell
chief medical officer, Aetna Health Plans

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"The payer of health care costs is actually more interested in what we have to offer today than they were in the past," said **Robert E. Cawthorn**, chairman of Rhône-Poulenc Rorer. "That is because they are finally looking at the total cost of care, and not just at the individual pieces. That's good news for the pharmaceutical industry because there are many cases where the most cost-effective way to treat a disease is greater use of pharmaceuticals."

Aetna's Dr. A. Bruce Campbell agreed: "If we are to see leapfrog improvement in the value of health care services it is up to us to stimulate innovation. This industry will pay for that as long as the costs are not unreasonable."

The focus on cost-reduction could be a boon for providers of low-technology health care solutions. **Timothy Aitkin**, vice-chairman and president of Apria Healthcare Group, one of the nation's largest providers of home health care services, sees his industry growing dramatically "for the very reason of cost containment." But this has not happened yet, because, says Aitkin, "The people who control the dollars — particularly insurers — are notably unaware of what home health care can offer, and Washington even more so. But this will certainly change."

Unanswered Questions — Uncertain Outcomes

by Elizabeth Moench

The managed care industry is taking it on the chin. The media delights in finding disgruntled consumers and physicians to point out failings of managed care. But is managed care unjustly bearing the blame for a health care system in chaos? Are managed care providers the "fall guys" of restructuring even as they shake out excesses and inefficiencies?

The political debates of the past several years have shaped our national expectations for health care; Americans want high quality care at the cheapest possible price, and they are not yet sure whether managed care companies can deliver that. So managed care is squeezed between an angry constituency of doctors and health care workers on the one hand, eager to expose the foibles of the system, and a vocal public that expects no limits on their health care. Criticism of managed care will continue until the industry plays an active role in communicating and encouraging a more sensible public debate of these difficult issues.

Elizabeth Moench is president of MediciGroup, Inc., a Princeton-based firm specializing in health care marketing communications. MediciGroup served as program consultants to the 1995 Business Week/Deloitte & Touche LLP Health Care Summit.

Competitive Health Care Markets

By listening closely to the panelists' descriptio of their own activities, participants at the 1995 Business Week/Deloitte & Touche LLP Healt Care Summit could gain a sense of what tomorw is likely to hold for their businesses. The case f the 650,000-member HealthPartners HMO Minnesota was partic larly striking. "We are aggressively pursuing the concept of consum choice and provider accountability," explain HealthPartners President and CEO **George C. Halvorson**

"We are aggressively pursuing consumer choice and provider accountability."

George C. Halvorson
president and chief executive officer, HealthPartners

"Our members ha access to detailed info mation on 4,500 doctors, their quality care, outcomes of car service levels, satisfac tion levels, accessibili issues, training, credentials, referral patterns, and hospital usa — doctor and institutional profiles that consumers can use to make their own choices They can also read of how others who have used that doctor or care system felt about their experience.

"This was impossible to do before the adve of managed care. And it creates a very healthy competition among the providers. We have 30-some teams of providers competing with ea other for the patients through this information system. If they do the best job of providing servi with quality, etc., they get the patients. If they don't, they lose the patients.

"Our system changes the definition of an HMO: instead of a health care system that offers no choices, managed care becomes the only health care environment that does offer meaningful choice."

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ADE

XPORTS THAT AREN'T OING ANYWHERE

w scam artists dupe companies eager to sell overseas

t seemed like the perfect opportunity to break into an important emerging market. At least that's what LifeScan Inc., a Johnson & nson subsidiary, thought when it eed in 1993 to sell $400,000 worth glucose test strips at half the U.S. olesale price. The buyer, Swiss-based glo-American Foundation, promised listribute the Milpitas (Calif.) comy's devices to needy diabetics in the ner Soviet Union. But the deal was ly—particularly when LifeScan disered that its strips never even left S. shores. Instead, they allegedly e diverted by Anglo-American to a w Jersey warehouse and then resold ocal distributors for a tidy profit.

ifeScan is just one of a growing num- of U.S. companies claiming to be imized by a little-known crime called ort diversion. At first blush, the fraud ht seem like just another petty rip- In reality, export diversion presents an enormous danger to business and the public. "This is a sinister and evil form of fraud that threatens the health and safety of consumers and costs taxpayers millions of dollars," says Noel L. Hillman, an assistant U.S. attorney in Newark who is at the forefront of a nationwide crackdown on export diversion.

Consumer-product giants, including Borden, Nestlé USA, and Procter & Gamble, have been hit hard by such schemes recently. Diverters buy premium-brand goods, such as Alpo dog food and Trek bicycles, at the deeply discounted prices typical of orders bound for untapped markets. During shipment, the goods are turned around at foreign ports and illegally resold to dealers and retailers in the U.S. for a sizable profit—stealing domestic customers from the original manufacturer as well, say the feds. "Diversion has become increasingly expensive for legitimate American exporters," says Donald E. deKieffer, a Washington attorney who has investigated dozens of such cases.

No one knows for sure how widespread the problem has become. Says one U.S. Customs official: "It's like asking how much narcotics are coming into the U.S." But another Customs Service agent estimates that nearly $100 million worth of imported goods that entered the Port of Newark, N.J., alone in the 12 months through September were false exports. Attorney deKieffer thinks at least half of the $15 billion in goods returned to the U.S. in 1994, or 3% of all exports, could be fraudulent.

BILK MAN. Harm to big business is bad enough. But discrepancies in the data may mean that government economists are overstating figures used to tally closely watched trade-balance statistics. Taxpayers, too, get the shaft when export-incentive payments are made to victimized companies. The government provides a variety of financial inducements to manufacturers to spur them to export. First Brands Corp. in Danbury, Conn., the maker of Glad plastic bags, got a $238,316 rebate on duty paid for imported petroleum resin used to make the bags the company thought it was exporting to Nigeria. But it turned out a New Jersey food broker, Steve Lasala, had sold the bags back into the U.S.

First Brands wasn't the only company bilked by Lasala. The food broker was charged with cheating 39 corporations out of $20 million. The victims included Quaker Oats, P&G, Duracell, and

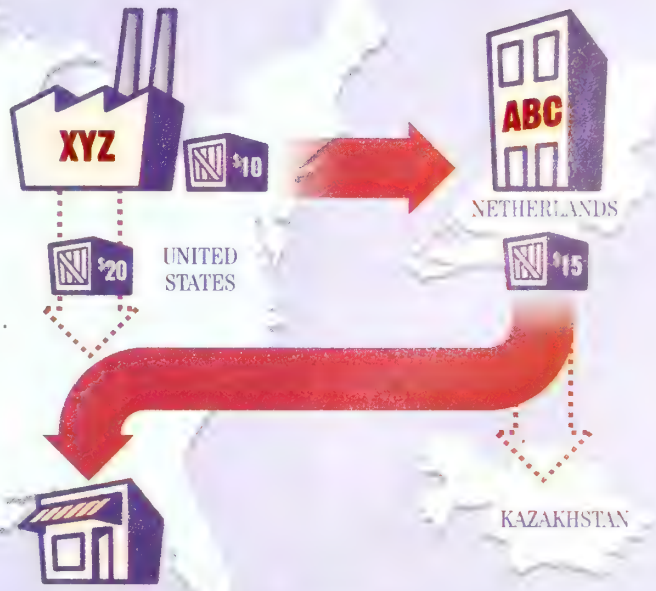
How Export Diversion Works

1 U.S. manufacturer XYZ Co. sells 100,000 widgets to Europe-based ABC Trading Co. for $10 each, half the U.S. wholesale price, to gain a foothold in Kazakhstan.

2 XYZ ships the widgets, while ABC secretly presells them to U.S. supermarket chains and wholesalers for $15 each. The widgets arrive in Rotterdam, where they are transported to a warehouse, repackaged, and shipped back to the U.S. duty-free as "American goods returned."

3 ABC pockets $500,000—the difference between the discounted export price and the price paid by vendors.

4 The widgets are distributed in the U.S. XYZ finds it can't place orders with some customers because they've already bought XYZ's widgets for less.



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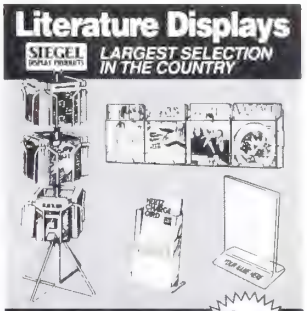

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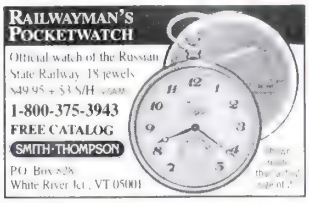

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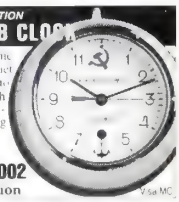

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Hormel Foods. Lasala pleaded guilty in 1994 to a number of charges, including wire and customs fraud. His punishment: $1.9 million in fines and restitution and four months in jail.

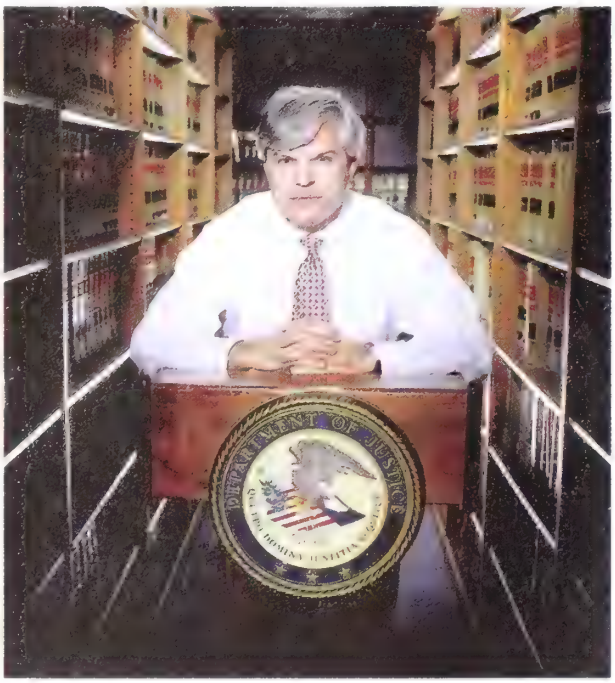
The diversion game also puts consumers at risk because companies don't always know where their products end up. "A company distributing food in the U.S. is supposed to be able to tell the government where it goes in case of a recall," explains Nancy G. Brown, vice-president and general counsel for Borden Foods Corp. "If the stuff is being diverted, you lose that control." In August, Borden Inc. filed civil charges against two companies for allegedly selling Realemon juice in the U.S. after agreeing to export it to the Czech Republic. The defendants could not be reached for comment.

Rx RISK. The Food & Drug Administration needs to keep track, too. The agency is focusing on the way in which export-diversion scams skew statistics medical experts rely on to determine a drug's safety. The FDA regularly monitors the adverse side effects caused by drugs, in case it needs to pull dangerous medication from the market. "Those statistics could be off if there's actually more of the drug being consumed in the U.S. than we know about," says James Dahl, assistant director of the FDA's Office of Criminal Investigations.

With so much at stake, law enforcers who once cast aside export-diversion cases are clamping down. In recent months, trade sleuths from Customs and the FDA have joined forces in dozens of ongoing investigations in Miami, San Diego, and Newark to nab diverters.

In one of the biggest busts to date, three people were indicted in July for their alleged roles in a slew of export scams, including the one that allegedly ripped off LifeScan. The 122-count indictment, which includes wire fraud and money-laundering charges, accuses the three of defrauding Nestlé, J&J, Bayer, and ICN Pharmaceuticals out of $19 million. Two defendants deny the charges, while a third, awaiting extradition in France, declines comment through his lawyer. The three are scheduled to go to trial on Jan. 16 in Newark.

Until recently, most trade-diversion cases have been handled by companies internally or in civil court. Johnson & Johnson's international sales staff, for example, refer about a dozen suspicious foreign orders every month to the company's executive director for security, Wayne Gilbert, who says at least a couple turn out to be bogus. But the Lasala case has emboldened angry executives to get the government more involved. "Now, companies are coming out of the woodwork, saying, 'Can you help us?'" says a Customs agent who tracks export diversion. "I could easily spend the next 20 years doing this."



> "This is a sinister and evil form of fraud that threatens the health and safety of consumers"
>
> — NOEL L. HILLMAN, Assistant U.S. Attorney

J&J collaborated with U.S. authorities in a sting in 1994 that nailed Anglo-American and helped crack other allegedly fraudulent operations, the Justice Dept. says. Customs strongly suspected Anglo-American was selling the glucose test strips it purchased from LifeScan in the U.S.—not in the former Soviet Union. So the next time the group offered to buy more, Customs investigators secretly tracked the shipment from the New Jersey warehouse to a storage site in New York and finally to U.S. distributors. How did they do it? At the feds' suggestion, LifeScan stuffed coupons for a free box of strips into the shipment. When users around the country started phoning in for their free, Customs traced the purchases back to specific pharmacies and from there to distributors and to the phony foundation.

SKIN DEEP. In the LifeScan case, the elaborate plan did the trick. But given the far-flung nature of many of the operations, most export diversion goes undetected. That's because once a sale is made, diverters often mask their fraud by using "U-boat" schemes. These involve shipping the goods abroad to an intermediate port, such as Rotterdam, where they are rerouted back to the U.S. duty-free as "American goods returned." In other scams, the goods never leave the U.S. The diverter tells the manufacturer to deliver the products to a warehouse near a port for consolidation with other shipments. From there, they are trucked to another location and parceled out to the diverter's customers.

Regulators suspect that export diversion also provides organized crime with a new technique for laundering money. The appeal of the scheme has grown as reporting requirements for bank-wire transfers have stiffened. Under a typical scenario, a drug kingpin wires $10 million to a Swiss bank account and directs a front company to buy $10 million worth of shampoo purportedly for Tajikistan at 50% below U.S. wholesale prices. He then has the money sent to the shampoo manufacturer's bank account. Now, the druglord has a paper pedigree for his cash. But instead of sending the goods to Tajikistan, he resells the shampoo to U.S. distributors and pockets a substantial profit. "Product diversion is the perfect device to launder money," says prosecutor Hillman. "A diverter sitting offshore may launder millions of dollars a day and earn a substantial profit through two telephone calls and two wire transfers."

Being duped into serving as laundromats for dirty money only adds insult to the multitude of injuries U.S. exporters suffer at the hands of diverters. And as these schemes proliferate, companies are starting to wonder whether some of the risks of exporting to developing economies are just too great. For the moment, benefits still outweigh potential harm. But should that change, U.S. exporters may not feel so adventurous.

By Amy Borrus in Washington

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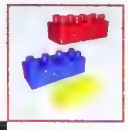

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EDITED BY AMY DUNKIN

TAX MOVES FOR '95: DON'T WAIT FOR CONGRESS

Will it be Jan. 1, 1995? Or Oct. 13, 1995? Or Jan. 1, 1996? For months, the effective date of the capital-gains tax cut proposed by Congress has been a big guessing game. If you're in the midst of a huge business transaction, reducing the top rate from 28% to 19.8% would cut your federal tax on a $1 million profit by $82,000—as long as the deal is completed after the effective date. Add another several thousand dollars for state tax savings. But wait too long, and your buyer might just walk.

Over the next few weeks, as you flit between parties and rush to do all your holiday shopping, another end-of-year ritual should take some of your time: tax planning. In 1995, the traditional strategies of accelerating deductions into the current year and deferring income into the new year still hold. But thanks to the sizzling stock market rally and the pending federal capital gains rate cut, the sharpest focus is on capital gains.

BIG-TICKET BREAKS. The timing of that rate change is most important if you're selling real estate, a family business, or any other big-ticket item. You can keep your deal going as a straight sale in the hopes that the reduction is retroactive as originally promised. Or you can set it up as an installment-sale arrangement in which the deal gets done but the money isn't collected—and therefore taxed—until 1996 and beyond. That can be risky, though, because it makes you a creditor, a position in which you may not feel comfortable.

But if you have mostly appreciated stocks, mutual funds, and other liquid investments, there's really nothing to sweat, even though the effective date is still uncertain. Why rush to sell in 1995 when you could put off gains until 1996—with a lower rate to boot? Indeed, if you're a middle-class taxpayer in the 31% regular tax bracket, then your capital-gains rate will be just 15.5%—if and when the cut is enacted. Plus, the tax isn't due for another 12 months. "My general advice is that you should plan for the law as it is today," says Clint Stretch, director of tax legislative affairs at Deloitte & Touche.

If you just have to unload that stock right now, however, you could sell it "short against the box," says Tom Ochsenschlager, a partner with accountants Grant Thornton in Washington. Under such a strategy, you lock in the current price by selling borrowed shares. For tax purposes, the sale doesn't occur until next year, when you deliver your shares to the lender. "That's what the big boys are doing," says Janice Johnson, director of financial services for Coopers & [illegible] brand in New York. [illegible] there's an added cost: inter[illegible] for the time that you h[illegible] borrowed the shares.

Chances are you've alre[illegible] got a bunch of capital ga[illegible] to report in 1995. First, [illegible] have your actual stock s[illegible] during the year. Some [illegible] generate huge gains—usu[illegible] the ones held the long[illegible] have the lowest cost ba[illegible] Second, don't forget cap[illegible] gains distributions from y[illegible] mutual funds (the fund co[illegible]panies have probably noti[illegible] you by now). Plus, if y[illegible] have redeemed any mutu[illegible] fund shares or switched [illegible]tween funds during the y[illegible] then you probably have m[illegible] gains. Compare your sell[illegible] price on these shares w[illegible] your average cost basi[illegible] your capital gain is the dif[illegible]ence. Make sure to inclu[illegible] any reinvested dividends a[illegible] past distributions in your [illegible]erage cost. That would [illegible]crease your basis and lo[illegible] your capital gains.

Your yearend tax-plann[illegible] time should be spent scour[illegible] your portfolio for actual a[illegible] potential capital losses to [illegible]set whatever capital ga[illegible] you may have already r[illegible]ized during the year. Did a[illegible] stocks actually go down [illegible] 1995? You bet. For instar[illegible] Kmart fell to 8 from 20 d[illegible]ing the last two years. Ch[illegible] your portfolio for ot[illegible] dogs. "You don't want [illegible] sell just to get a [illegible] loss," says Suzanne [illegible] Grath, a managing di[illegible]tor at Piper Jaffr[illegible] "But if you're tired [illegible] the stock, or you th[illegible]

as lost its potential, sell it and get the government hare a third of the loss. can always buy it back 1 days" without incurring wash-sale rule that would erwise nullify your initial 's tax loss.

TOVER LOSSES. Capital es can be used to offset tal gains, and any excess es can be used dollar for ar to offset $3,000 in reg- income. Any leftover es beyond that can be ied over to next year. sider taking some capital es now because the mar- might not be so hot next r—and you might not e gains to match against es. In addition, under the proposal, it would take of long-term capital loss ffset every $1 of ordinary me starting in 1996.

It also might not be a bad to walk through Sched- D of Form 1040 in De- ber, listing your actual proposed capital transac- s and netting them inst one another. The edule further organizes s and losses according to ther they are short- or g-term. A short-term —one in which the secur- is held for less than one r—is taxed at regular s that max out at 39.6%. ong-term gain is currently ed at 28%.

Once you determine your rend capital-gains position ether with your other in- e, make sure that you e paid enough in estimat- taxes. That's particularly ortant in 1995, when you bably have a lot of capital s. If you have underpaid, could owe a nondeduct- penalty of 9% on the rtfall.

There are two basic ways to avoid the penalty. The first is to pay 90% of your actual 1995 tax due. That's tricky, because the year isn't over yet so you don't know your target. The second way is to make sure you have paid 100% of your 1994 tax due—or 110% of your 1994 tax due if your adjusted gross income in 1994 was above $150,000.

You can accomplish this through a combination of quarterly estimated payments and employer withholding on your paycheck. One problem: If you've underpaid because of capital gains early in the year—and you haven't been making quarterly estimated payments—then there's only one way to catch up: Boost your withholding in December. The Internal Revenue Service regards lump-sum withholdings as if they were distributed smoothly throughout the year. "We see situations where people wind up with a zero net check on Dec. 31 because they want everything to go into tax payments," says Jim Vonachen, a tax partner in Denver with Clifton, Gunderson.

Even though you have satisfied the estimated tax-payment rules without a penalty, you still might have a huge tax bill in April on your capital gains. In that case, revert to some of the classic ways to reduce taxes that apply to everyone. If you haven't already done so, make sure you fund your 401(k) plan to the maximum amount. These contributions reduce gross income dollar for dollar. If you or your spouse is self-employed, plan on funding your individual retirement account or Keogh plan to the highest limit.

Next, pay your state income taxes and property taxes in December to get the write-off in 1995. Give some of your appreciated stock to charity and take a deduction for current market value without having to realize a gain. It's better to bunch medical expenses into one tax year instead of spreading them over two because you can only deduct the excess over 7.5% of adjusted gross income. Then take a look at Schedule A of Form 1040 to see if there are other itemized deductions that you can accelerate into 1995. And if you're planning to get married, could it possibly wait until January? Two single people filing separate returns pay less in combined tax than a married couple pays on a joint return.

Unfortunately, the pending legislation doesn't fix the marriage penalty, but it has some other goodies in it besides capital-gains tax cuts. Most, such as expanded IRAs, the new $500-per-child tax credit, and reduced estate taxes, won't factor into your 1995 yearend tax plan. But if you make too much money next year—right now, the income limit isn't available—you might not qualify for the child-care credit.

With so much uncertainty, the best thing you can do over the next few weeks may be the same actions as in most other years: Delay income into 1996 while moving up write-offs into 1995. And ignore the bickering between the President and Congress. *Stuart Weiss*

Ten Ways to Reduce Your 1995 Taxes

- Take capital losses in 1995 first to offset capital gains and then up to $3,000 in regular income.
- Sell appreciated stock short against the box. That means you lock in the current price by selling borrowed shares, but put off the gain until next year when you repay the lender.
- Pay your state income taxes and property taxes in December so you can get the write-off this year.
- Make charitable gifts of appreciated stock or real estate in 1995 and take a deduction for the current market value without having to realize the gains.
- Fund your 401(k) plan to the maximum limit to reduce your gross income dollar for dollar.
- Make the maximum contribution to your tax-deductible individual retirement account or Keogh if you are eligible.
- Accelerate medical and dental expenses into 1995 so you can exceed the deduction threshold of 7.5% of adjusted gross income.
- Shift other Schedule A itemized deductions into 1995, such as unreimbursed job-related expenses.
- Defer consulting income or large bonuses into 1996.
- If you've waited this long to tie the knot, hold off a bit longer, until after Dec. 31, so you are not subject to the "marriage penalty."

DATA: BUSINESS WEEK

TAXES Yearend tax-planning time should be spent scouring your portfolio for actual or potential losses to offset capital gains

LONG-TERM CARE: SIZING UP NEW WRINKLES

Healthy, financially stable, and the mother of three grown children who would willingly take her in if need be, 69-year-old Barbara Eakle seemed an unlikely candidate for long-term care insurance. But after her husband died three years ago, buying a supplementary long-term care policy was one of the first serious financial decisions she made. "I didn't want there to be any problems for my kids," says Eakle, a part-time antiques dealer in Woodstock, Vt. "They're all wonderful, but I didn't think I'd be doing them any favors having them worry about what would happen if I got sick."

Luckily, today's long-term care policies are more flexible than the pricey nursing home-only coverage that agents pushed in the 1980s. Fewer restrictions meant Eakle saved nearly 30% on her $2,259 annual premium by forgoing a costly return of premium option that refunds some of your premium if your payments lapse.

SMART MONEY

TAX DEDUCTIBLE? New wrinkles in long-term care insurance are worth investigating, especially in light of the government's plan to reduce the growth in spending for Medicare and Medicaid benefits. More than 12 million older Americans will require some form of long-term care by 2020, according to the Health Insurance Association of America (HIAA). Neal Slafsky, a financial adviser at Lincoln Financial Group in Boca Raton, Fla., recommends long-term care coverage for anyone approaching age 50 with a net worth of $250,000 and upwards. Those with a net worth in excess of $1 million may be able to cover long-term care expenses without insurance, but it's not an asset-protection strategy he advocates. For those who do purchase a policy, it's better to buy at a younger age because the premium triples from age 50 to 70.

If the GOP and President Clinton ever agree on a final budget, one of the less-controversial items with a good chance of passage will give consumers new incentive to buy long-term care coverage: The premiums would be tax-deductible, and any benefits collected would be exempt from the beneficiary's taxable income.

Before buying, shop around to determine which new riders and policy twists are appropriate for you. Many insurers are now offering a pooled-dollar approach that allows you to allocate the full benefit amount among any services covered under the contract. Traditional policies provide a daily stipend for nursing home and/or alternative care. John Hancock Mutual Life Insurance recently introduced a shared-care rider for couples that permits either spouse to use the benefits from the other's policy.

Recognizing that a growing number of people are receiving care in their own home from family members rather than in a nursing home, UNUM Life Insurance offers a more expensive total home-care policy that pays benefits from $1,500 to $6,000 per month for nonprofessional services, says Stephen Meahl, UNUM's vice-president for long-term care. But critics charge that relying on nonprofessionals may not be the best option. "To get this kind of flexible benefit may increase the premium by 20% to 30%," says Slafsky.

BELLS AND WHISTLES. Don't assume you can tack on riders as needed. Changing your mind later costs more and entails repeating the whole qualifying process—a dangerous proposition as you get older, says Mary Wenum, assistant vice-president of insurance products marketing at Lutheran Brotherhood in Minneapolis.

Also beware of benefits that do little more than jack up the price. "Since insurers have refined the policies, they want to sell you the Cadillac model when a Chevy could get you to the same place," says financial planner Deena Katz, president of Evensky, Brown & Katz in Coral Gables, Fla. Nonforfeiture riders—which allow you to collect a reduced benefit if you eventually stop paying—are the most controversial. This benefit increases premiums as much as 30%, says Gail Schaeffer, vice-president for retail long-term care at John Hancock in Boston.

Perhaps the biggest hidden cost is potential rate increases. Some insurers may promise more benefits than they will be able to support. So look into a company's history [illegible] raising premiums from an [illegible] dependent rating service s[illegible] as A. M. Best. Quality pr[illegible] cies are guaranteed ren[illegible] able, and premiums sho[illegible] remain fixed unless raised [illegible] an entire group of policyh[illegible] ers, according to the HI[illegible] which offers a free book [illegible] *Guide to Long-Term Care [illegible] surance* (800 942-4242).

No one wants to b[illegible] something they think the[illegible] never have to use. But [illegible] reality is that more peo[illegible] will be responsible—eithe[illegible] their home or a nurs[illegible] home—for their own lo[illegible] term care. If you cho[illegible] properly from the multit[illegible] of policies available, grow[illegible] old doesn't have to mean [illegible] ing bankrupt. *Kerry Ca[illegible]*

A Long-Term Care Checklist

MUST HAVES

- The option to choose nursing home or at-home health care
- Minimum of three years of coverage with a daily stipend of $110 (based on the national ave[illegible] age cost of nursing home care)
- Inflation protection: 5% of dai[illegible] benefit compounded annually for under age 75; 5% of daily benef[illegible] added to policy annually for 75 and older
- Benefit trigger based on cogni[illegible] tive impairment and/or inability t[illegible] handle two activities of daily livi[illegible] (such as getting dressed and fee[illegible] ing oneself)
- An Alzheimer's definition that specifies cognitive impairment

FEATURES YOU CAN SKIP

- Reservation that guarantees yo[illegible] a bed at a particular care facility for a set number of days per year
- A geriatric-care manager to oversee care
- Payment to make modifications to your home, such as adding a wheelchair ramp
- Short in-patient stay for benef[illegible] ciary if caregiver needs relief
- Ambulance transportation to and from the care facility

DATA DEENA KATZ, EVENSKY, BROWN & KATZ

What Does a Multimedia Phone Call Look Like?

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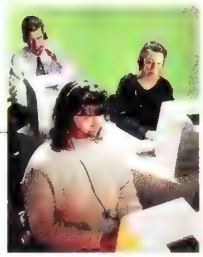

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BEFORE SAYING YES TO GOING ABROAD

CAREERS

Does two years in Brussels sound like the answer to a stagnant career? While many executives promptly say "yes" to the offer of a foreign assignment, such a stint no longer is necessarily a straight line to career advancement. At the same time, the perks associated with a job overseas have lost some luster.

When Jeffrey Kaufman, national director of services to executives abroad at Coopers & Lybrand in New York, returned in the summer of 1994 from five years in Europe—two in London followed by three in Brussels—he moved smoothly into a new position utilizing skills honed overseas. But many of today's expats find reentry more difficult. "Surveys show," he says, "that lots of expatriates leave the firm within one year of return." Either the position they return to doesn't require their new skills—or there is no position at all.

GOING NATIVE. Meanwhile, companies are reevaluating both the need to send employees overseas and the costs associated with doing so—especially in high-cost cities such as Tokyo and Paris. "Companies are beginning to understand just how expensive these assignments really are," says Michael Fischer, national director of international assignment services for Deloitte & Touche. "It can cost three to four times what it costs to maintain an employee in the U.S."

As corporations downsize, they are cutting compensation and benefits for international assignments, bringing both more in line with what a foreign national might expect in the same position in dollar terms. So in today's brave new world, you probably won't lose money if you go overseas—most employers still try to "keep employees whole"—but you shouldn't count on lavish perks.

More than 80% of North American companies seek to provide a standard of living comparable with that in the home country, according to an August survey by Organization Resources Counselors, and 96% pay a cost-of-living allowance (COLA). Nonetheless, says Fred Piker, ORC's director of international compensation, marketing, and consulting services, after an initial orientation period of a year or so, you may be expected to live more frugally and to shop as a native would.

On a larger scale, companies are rethinking what kind of lifestyle they are willing to support. Holly Juday, a consultant with Runzheimer International in Rochester, Wis., says there can be a $30,000-a-year difference in rent between central Tokyo and suburban Tokyo. That's why an increasing number of companies are now questioning whether an employee on a two- or three-year assignment needs to live in central Tokyo—or, for that matter, even to live in an expensive expatriate ghetto.

But each company is different. So if you're offered an overseas position, you want to ask certain questions before jumping at the opportunity. First, find out exactly how long you're expected to stay. The typical assignment abroad is three years.

Mark O'Reilly, director of international services at Buck Consultants, notes that a task-oriented approach is becoming more common. Companies send employees to a foreign location for a specific reason; once the task is accomplished, the worker comes home. Employees who stay overseas much longer than five years tend to remain abroad indefinitely and get paid more in line with local salaries of the host country.

The next step is to get a handle on compensation and benefits. Juday says "an extra 10% to 15% of base salary used to be commonplace, over the whole course of an assignment, as a foreign service premium." Today, incentives are more likely to take the form of a lump-sum payment, made in the U.S., at the beginning and end of the tour. Amounts range from 2% to 30% of base pay, with most companies offering 10% to 15%. That way, the employee has no reason to finish the job quickly and doesn't come to view the extra money as a permanent addition to pay.

But the biggest shift is

As companies downsize, they are revising pay and benefits for overseas jobs

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the realm of benefits. Typically, companies used to pick up the tab for any difference in costs between comparable housing in the home locale and abroad. Instead, according to Piker, some companies now give a target number for foreign housing costs. If the employee is able to find lower-cost housing, both company and employee benefit because they split any savings.

Cost-of-living allowances are being scrutinized as well. More than three-fifths of ORC's corporate clients now use an "efficient purchaser" index to peg living costs. This index assumes that expats quickly learn to shop more efficiently once they're accustomed to the local environment so that cost-of-living allowances can be pegged to buying the same quality goods and services at lower prices.

Companies also are getting smarter about assuring that their benefits are not redundant. "An example would be making sure that an in-kind benefit like a company car is not also covered by a COLA factor included in a cash payment to the individual," says Fischer.

Be sure to look at all the personal economics of the move, including your employer's policy on taxes. More than 90% of U.S. employers use a tax-equalization package, under which employees' aftertax net income is neither more nor less than in the U.S. Under tax protection, on the other hand, the company pays any excess taxes, but you could come out ahead if you happen to be sent to a low-tax jurisdiction, such as Saudi Arabia. More tax information is available in a free booklet, *U.S. Nationals Working Abroad.* Write Coopers & Lybrand, 1800 M St. N.W., Washington, D.C., 20036.

One of the biggest decisions you will face is what to do with your home during your absence. Usually, if you decide to sell a house, the Internal Revenue Service gives you two years to roll the profits into a new home without being taxed on the gain. But you get an extra day for each day that you are living overseas on assignment, up to a maximum of four years from the date of sale.

If you decide to rent the house because you expect to move back, consider the consequences of turning your residence into an investment property. While you'll be able to deduct maintenance costs, you could lose the ability to defer capital-gains tax on a later sale. In any case, if renting does make sense, consider using a local manager to keep tabs on the property in your absence.

But don't just restrict your attention to real estate. Before you go overseas, take the opportunity to clean your financial house as well. The move "is a demarcation point in life, a good time to get your wills drafted, make sure everything is in order," Fischer says.

One bit of employer assistance that might help before you leave is cross-cultu training. There are poten land mines in adapting to abroad, both personally professionally. An increas number of companies o orientation sessions to ployees and their families that they can avoid pr lems. A major reason for failure of an overseas ass ment, Kaufman believes that the family is unhap Cross-cultural training w help if your spouse is una to find a job or your k don't like their new sch but it can go a long way ward smoothing other bu in the road, such as kn ing what to expect of leagues or neighbors how to behave in return. example, both the excha of business cards and ri gift-giving are very for in Japan.

"LIP SERVICE." When al your questions have been swered to your satisfact ask for a letter of agreem "Don't listen to lip service rely on an informal ha shake," Fischer insists. " it in writing." And see t the letter spells out all terms of your assignment, cluding how long you're pected to be abroad and special components, such home leave or educational sistance for private scho

Don't expect the lette guarantee you a specific upon your return. But look carefully at how move fits into your car plans. Try to determine w will happen if the person report to leaves or is placed, or if your entire vision disappears while are gone.

Then make sure you your bit to avoid disaster keeping in regular cont with the home office w you're abroad. When it's t to return, be flexible. Exp cultural adaptations—ba at breakfast, say, instea baguettes. And know t when you report to w it may take a while bef you stop feeling like foreigner. *Grace W. Weins*

What You Should Know About that Overseas Job

HOW LONG YOU'RE EXPECTED TO STAY

The average assignment lasts three years, but many companies now send employees abroad to accomplish specific tasks, rather than for a set period of time.

WHAT YOU'LL BE PAID

Salaries typically equal at-home compensation plus an incentive premium.

HOW COST OF LIVING IS FIGURED

Instead of an American standard of living, your employer may expect you to accept the lifestyle of your local peers.

YOUR COMPANY'S TAX POLICY

You shouldn't have to pay more tax on salary abroad than you would at home.

WHAT EXTRAS YOU CAN EXPECT

Ask about home leave, reimbursement of educational costs for your children, and temporary living assistance when you return home.

YOUR NEXT MOVE

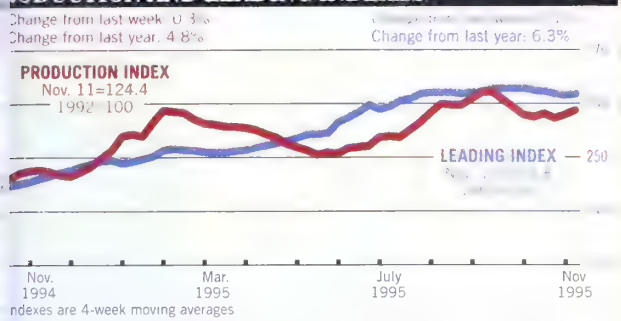
Does your employer have a specific job in mind for you when you complete your assignment?

DATA: BUSINESS WEEK

There are potential land mines in adapting to life abroad. Many companies now offer their employees cross-cultural training

Business Week Index

ODUCTION AND LEADING INDEXES



ndexes are 4-week moving averages

· **production index** increased during the week ended Nov. 11. Before ;ulation of the four-week moving average, the index jumped to 125.8, from 4.5. Increases in seasonally adjusted output levels of autos, trucks, and el led the gain.

· **leading index** rose in the latest week, while the unaveraged index hit 3.2, up sharply from 261.4. The advance reflects higher stock prices and er growth in real estate loans.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/18) thous. of net tons	1,877	1,895#	-1.5
AUTOS (11/18) units	128,333	132,255r#	-8.3
TRUCKS (11/18) units	120,312	114,839r#	-1.7
ELECTRIC POWER (11/18) millions of kilowatt-hrs.	60,532	59,890#	8.0
CRUDE-OIL REFINING (11/18) thous. of bbl./day	NA	13,481#	NA
COAL (11/11) thous. of net tons	19,609#	19,848	-3.4
PAPERBOARD (11/11) thous. of tons	812.6#	880.0r	-7.1
PAPER (11/11) thous. of tons	793.0#	834.0r	-6.6
LUMBER (11/11) millions of ft.	445.8#	436.2	-11.9
RAIL FREIGHT (11/11) billions of ton-miles	25.2#	25.6	0.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
OCK PRICES (11/17) S&P 500	594.59	590.49	28.1
RPORATE BOND YIELD, Aaa (11/17)	7.02%	7.04%	-19.3
DUSTRIAL MATERIALS PRICES (11/17)	111.9	111.6	NA*
SINESS FAILURES (11/10)	NA	314r	NA
AL ESTATE LOANS (11/7) billions	$504.9	$501.7r	11.2
NEY SUPPLY, M2 (11/3) billions	$3,722.6	$3,721.8	4.3
TIAL CLAIMS, UNEMPLOYMENT (11/1) thous	375	366	12.6

urces: Center for International Business Cycle Research (CIBCR), Standard & r's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures arge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on iness failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/22) $/troy oz.	386.300	385.300	0.5
STEEL SCRAP (11/21) #1 heavy, $/ton	134.50	134.50	-2.9
COPPER (11/18) ¢/lb.	139.7	140.8	2.1
ALUMINUM (11/18) ¢/lb	77.0	78.0	-16.3
COTTON (11/18) strict low middling 1-1/16 in., ¢/lb.	84.50	83.03	17.1
OIL (11/20) $/bbl.	18.09	17.90	3.5

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
DERAL FUNDS (11/20)	5.73%	5.71%	5.53%
MMERCIAL PAPER (11/21) 3-month	5.72	5.74	5.90
RTIFICATES OF DEPOSIT (11/21) 3-month	5.73	5.74	5.87
(ED MORTGAGE (11/17) 30-year	7.66	7.63	9.33
JUSTABLE MORTGAGE (11/17) one-year	5.78	5.69	6.33
IME (11/22)	8.75	8.75	8.50

urces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/21)	101.60	101.02	98.60
GERMAN MARK (11/21)	1.41	1.40	1.56
BRITISH POUND (11/21)	1.56	1.56	1.56
FRENCH FRANC (11/21)	4.86	4.84	5.35
ITALIAN LIRA (11/21)	1592.5	1590.8	1614.3
CANADIAN DOLLAR (11/21)	1.35	1.36	1.37
MEXICAN PESO (11/21)	7.705	8.000	3.446

Sources: Major New York banks Currencies [illegible] per U.S. dollar except for British pound in dollars

aw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

STING HOME SALES

nday, Nov. 27, 8:45 a.m. ▶ Existing ies probably sold at an annual rate of million in October, after rising 0.7% in tember, to a 4.15 million pace.

ISING STARTS

sday, Nov. 28, 8:30 a.m. ▶ Housing ts in October probably stood at an ual rate of 1.4 million, unchanged from tember's level. That's according to the dian forecast of economists surveyed by International, a division of The Graw-Hill Companies. The October hous- release was originally scheduled for 17, but was delayed because of the ernment shutdown.

CONSUMER CONFIDENCE

Tuesday, Nov. 28, 10 a.m. ▶ The Conference Board's index of consumer confidence likely slipped to 96.4 in November from 97 in October, projects the MMS report. That would be the index's third decline in a row. And a deterioration in consumers' optimism about the economy and job prospects does not bode well for holiday shopping.

DURABLE GOODS ORDERS

Thursday, Nov. 30, 8:30 a.m. ▶ New orders taken by durable-goods manufacturers probably fell 1.5% in October. That's suggested by the drop in output of durable goods for the month. The expected decline follows two big gains in orders, including a 2.9% rise in September. With consumer demand losing steam, however, manufacturers are cutting back output.

NAPM SURVEY

Friday, Dec. 1, 10 a.m. ▶ The MMS survey forecasts that the National Association of Purchasing Management's business index probably rose to 48% in November, from 46.8% in October. Despite the increase, the NAPM index would still be below the 50% line that divides expansion and recession for the industrial sector.

Note: As a result of the government shutdown, many economic releases have been rescheduled.

This Week, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Thanks to the Internet and the Web, a revolution in software is coming soon to a computer near you—and it's long overdue. Read all about it in the Cover Story and then talk with the author, BW Software Editor Amy Cortese. **Nov. 26**
9 p.m. EST in the Globe

Tuesday

You don't need to wait for a tax bill from Congress to get ready for your next 1040 and your own tax bill. Check out Personal Business in this issue for yearend tax tips and join us with your questions for tax accountant Jim Vonachen of Clifton, Gunderson & Co. and Stuart Weiss, who's both a writer and a CPA. **Nov. 28**
8 p.m. EST in the Odeon

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

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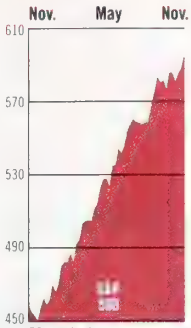
nvestment Figures of the Week

HENTARY

.S. stock market could be ed up in one word: Wow. ow Jones industrial average l above 5000 for the first n Nov. 21, rising 40 points l the day at 5023.6. The vas spurred on by hope for in short-term rates and nent that the budget im- in Washington would give reduced deficits. Cheery mic sentiment also boosted earlier in the week. But were sluggish, with the of 30-year Treasuries g slightly on Nov. 21.

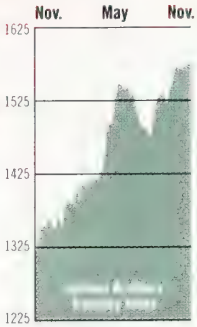
STOCKS



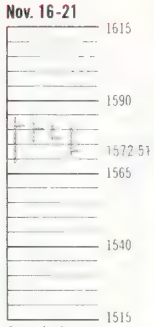
52-week change
+33.4%

1-week change
+1.1%

BONDS

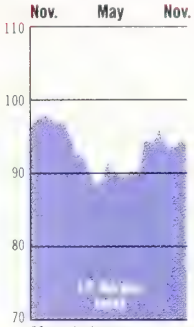


52-week change
+18.7%

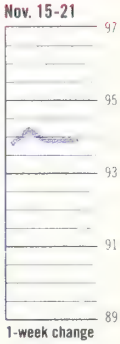


1-week change
+0.3%

THE DOLLAR



52-week change
−2.4%



1-week change
+0.1%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
IONES INDUSTRIALS	5023.6	2.0	36.6
ZE COMPANIES (S&P MidCap Index)	212.7	−0.3	28.0
L COMPANIES (Russell 2000)	301.1	−0.1	24.3
OMPANIES (Russell 3000)	341.9	0.7	32.7

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3604.1	0.9	17.1
) (NIKKEI INDEX)	18,384.3	4.0	−3.1
NTO (TSE COMPOSITE)	4624.7	1.4	14.0

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.51%	5.55%	5.43%
30-YEAR TREASURY BOND YIELD	6.27%	6.29%	8.04%
S&P 500 DIVIDEND YIELD	2.48%	2.27%	2.85%
S&P 500 PRICE/EARNINGS RATIO	17.0	16.7	16.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	542.2	539.8	Positive
Stocks above 200-day moving average	62.0%	63.0%	Neutral
Speculative sentiment: Put/call ratio	0.66	0.66 r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.88	2.25	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

MONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
IOTOGRAPHY/IMAGING	14.1	44.0	EASTMAN KODAK	14.9	44.5	70 1/4
TAL AND GLASS CONTAINERS	12.8	3.4	CROWN CORK & SEAL	14.7	5.1	40 7/8
UCKING	11.7	0.8	ROADWAY SERVICES	17.6	1.5	51 3/4
IOs	11.1	−2.0	U.S. HEALTHCARE	11.6	−15.2	39 5/8
ANUFACTURED HOUSING	9.2	8.9	FLEETWOOD ENTERPRISES	10.5	11.2	22 3/8

MONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
MICONDUCTORS	−9.4	47.9	MICRON TECHNOLOGY	−31.4	150.2	49 7/8
APER CONTAINERS	−6.8	−0.6	STONE CONTAINER	−14.0	0.8	15 3/8
IREST PRODUCTS	−6.4	12.1	WILLAMETTE INDUSTRIES	−16.2	28.2	54 1/2
ERSONAL LOANS	−5.6	53.8	HOUSEHOLD INTERNATIONAL	−8.0	64.6	59 1/4
OTELS AND MOTELS	−4.3	12.8	HARRAH'S ENTERTAINMENT	−16.1	9.8	22 3/4

UTUAL FUNDS

MORNINGSTAR INC

DERS

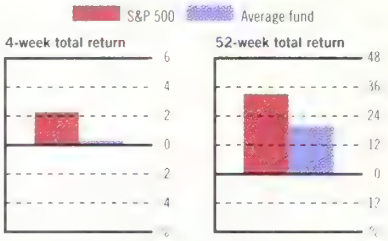
-week total return	%
MITH BARNEY SPECIAL EQUITIES B	12.0
HN HANCOCK SPECIAL EQUITIES A	10.9
DELITY SELECT CONSUMER PRODUCTS	8.6

veek total return	%
DELITY SELECT ELECTRONICS	75.3
OVETT SMALLER COMPANIES A	73.3
GER CAPITAL APPRECIATION	69.7

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-MEXICO	−17.7
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−14.1
VAN ECK ASIA INFRASTRUCTURE A	−12.3

52-week total return	%
WRIGHT EQUIFUND-MEXICO	−61.6
TCW/DW LATIN AMERICAN GROWTH	−41.8
TCW GALILEO LATIN AMERICA EQUITY	−41.4



ELATIVE PORTFOLIOS

DRI/McGRAW-HILL

ar amounts represent the ent value of $10,000 sted one year ago ach portfolio

centages indicate -day total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$13,608	$13,429	$11,470	$10,558	$10,043
+0.77%	+0.03%	+2.27%	+0.12%	−0.52%

ata on this page are as of market close Tuesday, Nov. 21, 1995, unless otherwise indicated. stry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 20. Mutual fund returns are as of Nov. 17. Relative portfolios are valued as of Nov. 20. A more detailed explanation of this page is available on request. r=revised

LIBERATION, COURTESY OF THE INTERNET

Ours is an era of revolutions: The collapse of communism. The economic rise of the Third World. The Information Age. Behind these upheavals lies an integrating idea: openness. It's time to open up, to "liberalize" everything, from national borders to shareholder reporting.

Now, the open standards of the Internet are rapidly transforming the computer business. Throughout the 1980s, the high-technology industry did an astounding job of bringing innovations to market at great speed, thanks to cutthroat competition between lots of hardware and software companies: IBM vs. Apple Computer, Intel vs. Motorola, Microsoft vs. everyone else.

Yet in the 1990s, the rules seemed to change. Microsoft was winning the lion's share of markets and profits, along with semiconductor goliath Intel—creating the so-called Wintel (Windows and Intel) standard. Microsoft's control of the personal-computer architecture has become so pervasive that government trustbusters, corporate customers, and industry rivals feared the company's near-monopoly position.

While such apprehensions were perhaps well-founded, they may become increasingly irrelevant. The open-system standards of the Internet and its World Wide Web are seeing to that. Just as IBM lost its near-monopoly in computers during the era of mainframes to nimbler PC visionaries, so the Internet threatens to overhaul the software business, creatin whole new set of winners and losers. On the World W Web, computer users with all kinds of systems easily c municate with one another. New programming setups t ride on the Web's open standards, such as Sun Micros tems' Java, promise to make it easy for diverse machines f various manufacturers to share the same software. With m imal barriers to entry, the Internet offers a software w where no one has seized control and where entrepreneurs reach out to new customers without going through Micro or any other aspiring gatekeeper. Once again, as our Co Story on software makes clear (page 78), competition technology are the enemies of monopoly.

The tantalizing possibility—that software's current co rate hierarchy may be upset—isn't the most interesting p of the Internet story, however: It's the Internet's potentia lower the costs of information and distribution drastic making American industry even more flexible and nimble. realizing the wealth-creating potential of the Internet won't just a tale of technology. It will also depend on organizati al innovations and investments that will allow employees exploit this frontier technology. It will require vigilance customers to make sure computer and software makers st with open standards.

DON'T SELL THE ECONOMY SHORT

It's ludicrous, really. The coming federal budget deal seems to depend on whether negotiators decide the economy will grow at a 2.3% annual rate for the next decade, as forecast by the Congressional Budget Office, or at 2.5%, as gauged by the White House. Worse, the whole debate reflects only the constricted vision of conventional wisdom.

Fact is, no one knows how fast the economy will grow in the next year, let alone the next decade. Indeed, it's striking how many dire business and economic predictions have proved erroneous. In the 1980s, the Japanese semiconductor juggernaut was going to destroy its U.S. counterpart. But the U.S. chip business is thriving worldwide in the 1990s. Among economists, it has long been an article of faith that when the unemployment rate falls below 6%, inflation takes off. Yet the unemployment rate has been below 6% for well over a year, and inflation remains tame. Early in 1995, with the dollar in tatters and investors flocking to mutual funds, many market seers predicted a financial-market meltdown. Today, the Dow Jones industrial average has broken through the 5000 mark, long-term interest rates have fallen by nearly two percentage points, and household net worth is up by some 10% this year.

BUSINESS WEEK aligns itself with those economists who believe the economy can expand at a 3%-a-year pace without igniting inflation. Of course, the White House and the Republican Congress do need the discipline of a conservat growth yardstick, now that they've agreed to negotiate on ancing the budget in seven years. It's also true that, in 1980s, economic forecasts during frequent budget batt were too rosy. Still, with the financial markets seemin saying that the gains from corporate restructurings and high-tech revolution have a way to run, we would encour negotiators to lean more on a 2.5% forecast in their delib ations, shaving as much as $400 billion off the amount t needs to be cut over the next seven years.

More important than the economic number during days of brutal talks that lie ahead is a reminder that eli nating the budget deficit isn't an exercise in hair-shirt e nomics. It's savings and investment that count. The econ ic idea behind a balanced budget is to raise savings, whic turn fuels investment. Just as business invests in machin and equipment, the government must keep investing in e cation, research and development, and infrastructure to bo growth prospects in a world of fierce international competit When people, companies, and nations invest in their hum and physical capital, they're betting on new markets a new ideas—vital ingredients for faster growth. Yes, bala the budget in seven years. But avoid the danger that lo growth expectations become a self-fulfilling prophecy.

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THE UNLIKELY MOGUL

ou've heard the case against Time Warner's Jerry Levin. Here's why you shouldn't count him out. PAGE 86

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E DUE

Even those who live on the edge know they shouldn't take chances when designing a client/server system for their business. With so much to be gained, you have to be sure that everything goes just right.

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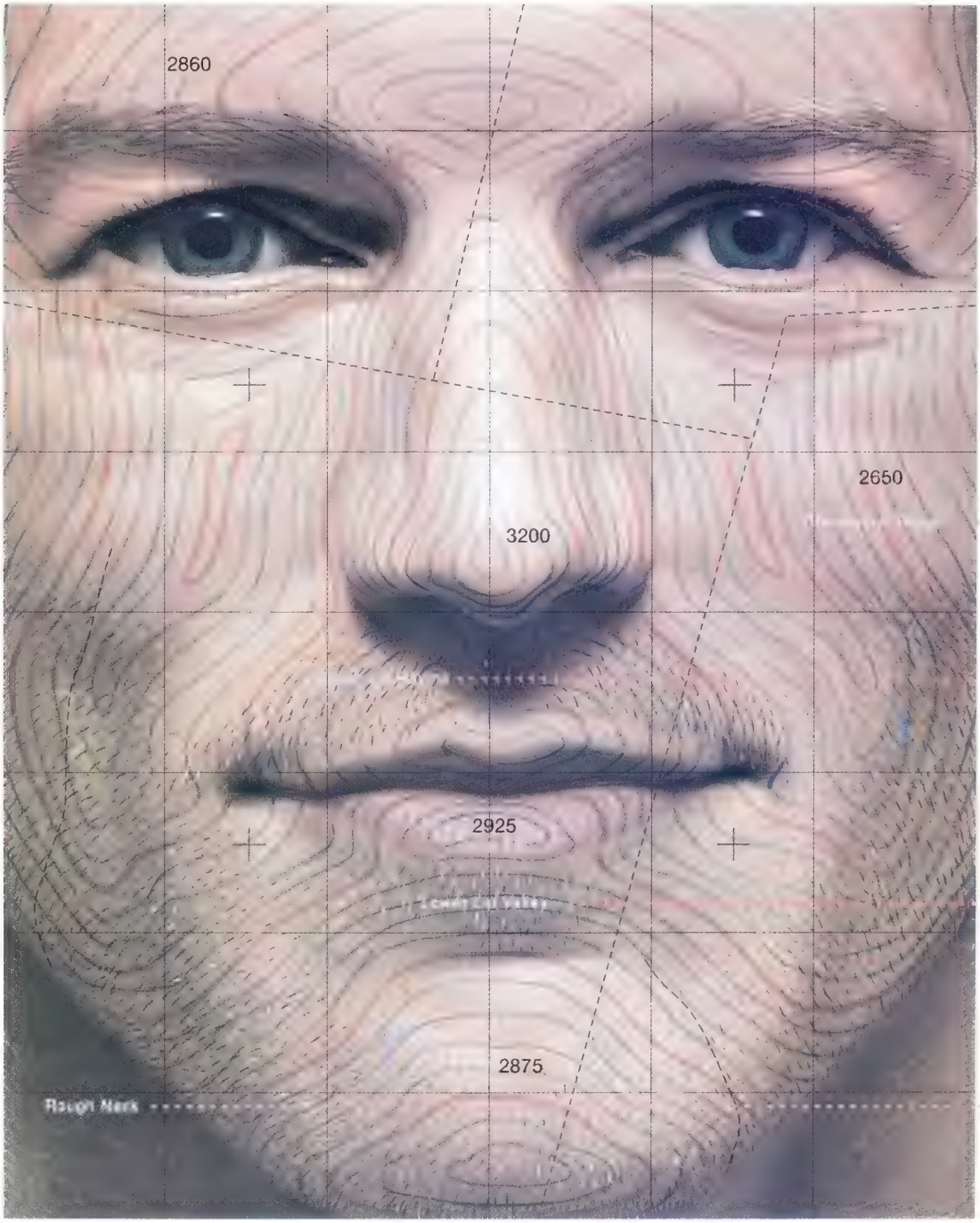
2860
2650
3200
2925
2875
Rough Mark

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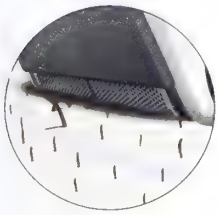
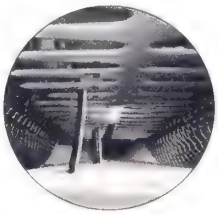


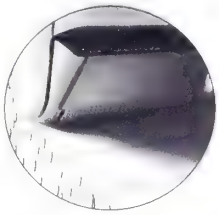
Stage 1

One foil removes short hairs



Stage 2

An integrated cutter – longer hairs



Stage 3

The second foil completes the job

BRAUN

The world's most recognized shave.

BusinessWeek
DECEMBER 11, 1995

COVER STO

THE UNLIK
MOGUL
You've heard
the case again
Time Warner's
CEO. Here's v
you can't cou
Jerry Levin
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Cover Story

86 THE UNLIKELY MOGUL
Time Warner CEO Jerry Levin hasn't had an easy ride. He lacks the charisma of his predecessor, the late Steve Ross. Many investors still blame him for helping to create the debt-laden Time Warner. And the company's stock has missed out on the bull market. Yet Levin is making some bold moves—and if the Turner deal works, he may win over his critics

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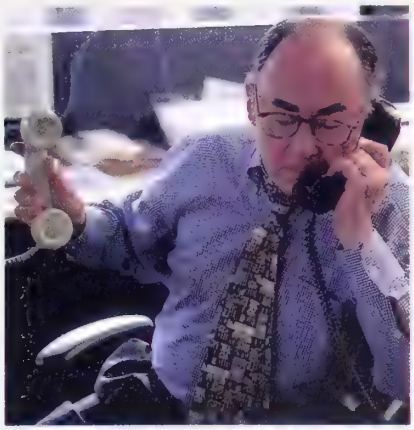

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Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

TALK SHOW "America cannot and will not be the world's policeman."

—President Clinton in his TV address to rally support for sending 20,000 U.S. troops to Bosnia

PAPER PLAYS

. . . AND A BILLION DOLLARS IN A PEAR TREE

JOBS: *Pixar pix are perking*

WHAT DO YOU ASK SANTA FOR if your name just happens to be Steve Jobs? How about (a) a hit Christmas movie, or (b) $1 billion? Or (c), both?

You got it. On Nov. 29, Jobs's Pixar Animation Studios went public in spectacular fashion, a week after the opening of *Toy Story*, the animated Disney movie it helped create. Pixar, originally expected to sell its shares for $12 to $14, bumped the price up to $22 after *Toy Story*'s box office success. Still, opening day was a blowout: Pixar peaked at $49 before closing at $39. And Jobs? His 80% stake was worth a cool $1.1 billion at day's end.

It was reminiscent of the IPO 15 years ago of Jobs's first company, Apple Computer. Except that Jobs, 40, made just $217 million from Apple's offering back in those days. He paid $10 million for Pixar in 1985, then poured $50 million into its computer animation technology. Says Jobs: "Overnight success stories take a long time."

The payoff was *Toy Story*, which has grossed almost $40 million domestically since its Thanksgiving debut. Now, Pixar has a deal to make two more movies with Disney. Can it possibly live up to Wall Street's expectations? *Kathy Rebello*

STREET NEWS

NOMURA'S CAPITAL PUNISHMENT

MAX CHAPMAN, CO-CHAIRMAN of Nomura Securities' U.S. operation, has dodged a bullet. Nomura and Chapman himself had been under investigation by the New York Stock Exchange since 1994 for a possible failure to supervise, say sources close to the firm. At issue: whether Nomura permitted $212 million of trades in Mexican securities in violation of NYSE net capital rules.

On Nov. 29, the exchange levied a $1 million fine—the third-largest in NYSE history—against Nomura. The NYSE found that the firm made the trades even though "members of Nomura's management" knew this could get it in trouble. Nomura neither admitted nor denied guilt.

CHAPMAN: *Whew!*

Chapman became aware of the transactions in a July, 1992, meeting, according to the NYSE findings. Chief Nomura lawyer Ira Lee Sorkin says he doesn't know whether Chapman was under investigation but that to single him out would have been unfair since many senior officials knew of the trades.

The NYSE won't comment on the case, which has had repercussions at Nomura. The firm's CFO, Kazuo Wakairo, was recently transferred to London as a result, sources say. Wakairo, like Chapman, was not named in the NYSE report. While Wakairo couldn't be reached, his lawyer, Robert Pietrzak, denies that Wakairo moved due to the NYSE brouhaha. *Leah Nathans*

THE DEAL MILL

SPRINT HEARS THE JINGLE OF EUROCASH

SPRINT IS ABOUT TO RUN AWAY with a big infusion of francs and marks. The No. 3 long-distance carrier has won the support of the Federal Communications Commission staff for its plans to get $4.2 billion in investment from Deutsche Telekom and France Télécom. The commissioners likely will approve the recommendation at their next meeting, on Dec. 15.

The sticking point has been commissioner Chairman Reed Hundt's insistence on using the deal as a wedge to open France and Germany's telecom markets. That's what the agency did in 1994 before it approved British Telecommunications' $4.3 billion investment for a 20% stake in MCI Communications. In the Sprint deal unveiled in mid-1994, the Germans and French appeared to have satisfied the agency. European regulators gave a conditional blessing to the deal in October.

But FCC approval comes with strings. It is contingent on the Germans and French continuing to open their markets. If they renege in the future, the FCC can withdraw its approval or impose big fines. The commission showed its clout on Nov. 28 by enacting new open-market standards for foreign investors in U.S. carriers.

The extra money will come in handy for Sprint. Once Congress revamps the telecom regulations, possibly before Christmas, Sprint will face an avalanche of new competition from the Baby Bells. *Mark Lewyn*

THE LIST 'GATES? WHO'S HE PLAY FOR?'

For top executives, it pays to be well informed about matters of commerce. Very few of them turn to the business section first, though. This may be a natural desire to avoid work-related reading before they've really woken up. But public-relations firm Jericho Promotions, which conducted the survey, found that managers not only prefer to read sports and lifestyle stories first for the fun of it: They also claim that these sections give them the most useful information they need to run their companies.

NEWSPAPER SECTION EXECS READ FIRST

Survey of vice-presidents and above at biggest 1,000 companies

SPORTS	32%
LIFESTYLE	21
FRONT PAGE	18
HOROSCOPE	16
COMICS	10
BUSINESS	2
OTHER	1

DATA: JERICHO PROMOTIONS INC.

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Up Front

SHOW BIZ

IS AMERICA READY FOR 'GLOVELAND'?

HIStorical: *Mayor Barnes and the Jackson homestead*

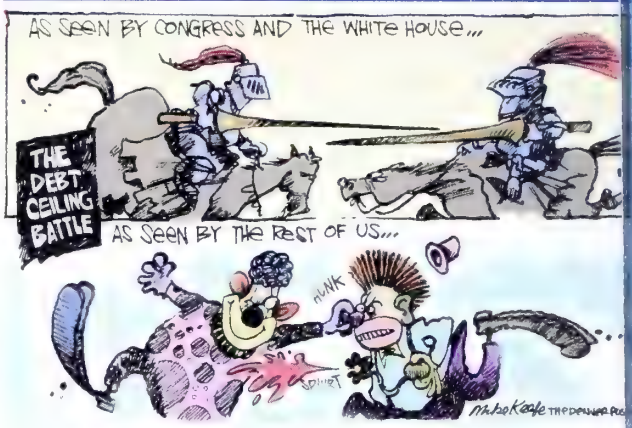
COULD THE NEXT Graceland be a white-frame bungalow sitting on a concrete slab at 2300 Jackson St. in Gary, Ind., a downtrodden city on Lake Michigan wracked by drugs and crime? Sounds like a hard sell for a tourist mecca, but the unassuming one-story house was once Michael Jackson's family home.

Mayor Thomas Barnes wants to make the house the center of a $2 billion, 400-acre rock 'n' roll entertainment theme park that could bring desperately needed economic development to Gary. Elvis Presley's Graceland mansion is the economic model for the project, even though the two structures couldn't be more different. The Jackson home's modest appearance "is part of its appeal," says Mayor Barnes, who has offered to buy the house for $24,700 and relocate it to a large tract elsewhere in town. The Jackson family, which moved out in 1968 after the Jackson Five signed with Motown records, still owns the place. Now occupied by a cousin, it attracts little notice from fans.

The Jackson family is definitely interested, although no deal has been struck, and Michael has the final say, according to the family's attorney, Brian Oxman. Already, Oxman says, there have been calls from Sony, Toshiba, Toyota, and Konica expressing interest in participating.

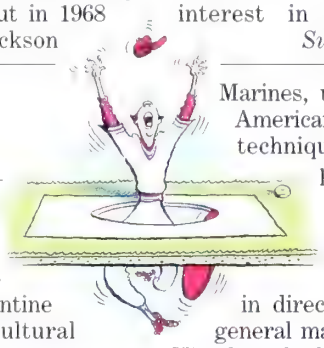
Susan Chandler

DRAWN & QUARTERED



EAST MEETS WEST

FIELD OF BROKEN DREAMS



ON THE AMERICAN BASEBALL diamond, it doesn't matter where you come from, just how well you perform. Not so in Japan. Just ask Bobby Valentine. The former Texas Rangers manager took the Chiba Lotte Marines from bottom-dwellers to second place in Japan's Pacific League. And his reward? The Lotte Marines recently dumped Valentine because of "cultural differences."

Valentine, who was popular with Japanese fans and players, had revamped the Marines, using standard American management techniques such as player rotation and the occasional recuperation day. That put him in direct conflict with general manager Tatsuro Hirooka, who believes in *kanri yakyu*, or "controlled baseball," meaning never-say-die practice and total control over the players' lives. In the 1970s, American managers Joe Lutz and Don Blasingame quit Japanese teams after similar spats over authority issues.

Another blow to Japanese baseball fans: the L.A. Dodgers' Hideo Nomo, formerly of Japan's Kintetsu Buffalos, refuses to play the dutiful native son. Last season's National League rookie of the year, he is seeking a green card to stay in the U.S. What's more, the 27-year old pitcher says he hasn't watched any Japanese baseball since he left.

Edith Updike

PRODUCT PEEK

FROM MOON SHOTS TO TEE SHOTS

DIE-HARD GOLFERS MAY FIN one under their Christm tree: a high-tech driver wi a titanium head. It's 50 lighter than a steel head b stronger and harder, allowin a larger hitting surface. Sa Ron Goldblatt, general ma ager of clubmaker Top-Flit the ball travels much fast and with less spin, so th shot is longer and straighte

Mighty titanium, original created for use in the aer space industry, has found new home in such spor products as ultralight racin bikes. In September, Top-Fli introduced its driver with a titanium head and graphite shaft at the 1995 PGA International Show. Top-Flite's new club, Tommy Armour Golf's Titanium Tommy Gun, and others ar shooting for a piece of th $2.3 billion club market.

RIGHT STU *Titanium*

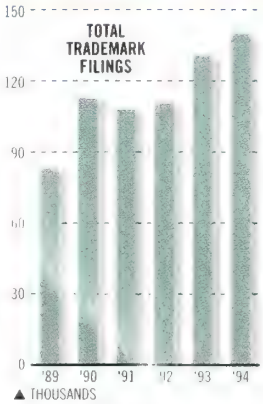
These clubs aren't chea Top-Flite's Intimidator a $275 is a relative bargai Other titanium drivers rang from $375 to $500. Callaway steel-headed Big Bertha cost $185 to $285. Some big-nam golfers are already using t tanium to good effect. Payn Stewart swung one of th clubs to finish among the to 10 at this year's British Oper

Sunita Wadekar Bhargav

THE BIG PICTURE

MASS OF MONIKERS

There's a boom in trademarking brand names for products and services. Reason: The law changed in late 1989, allowing companies to trademark stuff they hadn't yet introduced to the public. Almost one-fifth of the filings were for high tech, such as software.



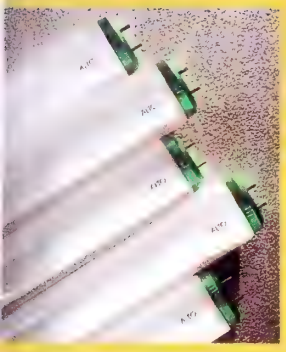
DATA: MASTER MENU, INC.

FOOTNOTES Pay of general practitioners in managed care, 1995: $116,600, down 15.4%; other GPs, $115,000, up 6.5%

People who don't buy a product should benefit from it too.

Let's make things better.

Michael van Tuyl, Young Promoter Manager
Philips Lighting, Somerset, NJ



I'm Michael van Tuyl, from the Lighting division of Philips Electronics.

We've created a fluorescent tube with so little mercury it makes the U.S. EPA [illegible] for nonhazardous waste. In fact, it's the first fluorescent to meet the EPA standard.

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PHILIPS

To launch Win

used 4 networks,

85 magazines,

100 radio stations

and, *ahem,*

one server.

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TO POWER THE ON-LINE LAUNCH OF WINDOWS® 95, MICROSOFT CHOSE THE DIGITAL PRIORIS™ HX 590DP SERVER.

Failure was not an option on August 24. Microsoft's official launch date for Windows® 95 marked the biggest new product introduction in industry history, not to mention one of the great all-out media blitzes. On this day, a minor glitch would have made headlines. So when all eyes turned to Microsoft—Microsoft turned to Digital.

For the on-line launch of Windows® 95, Microsoft plugged in the Digital Prioris Internet server—ten of them, in fact. A decade of Microsoft/Digital teamwork was behind the decision. So was the simple realization that, for a job that meant handling almost two million hits the first day, the Prioris HX 590DP was simply the best server around. After all, its fault tolerant features do include drive arrays, ECC memory, redundant cooling systems and power supplies. Put simply, Microsoft chose Digital for the same reasons you should. Reliability. Power. And no slip-ups.

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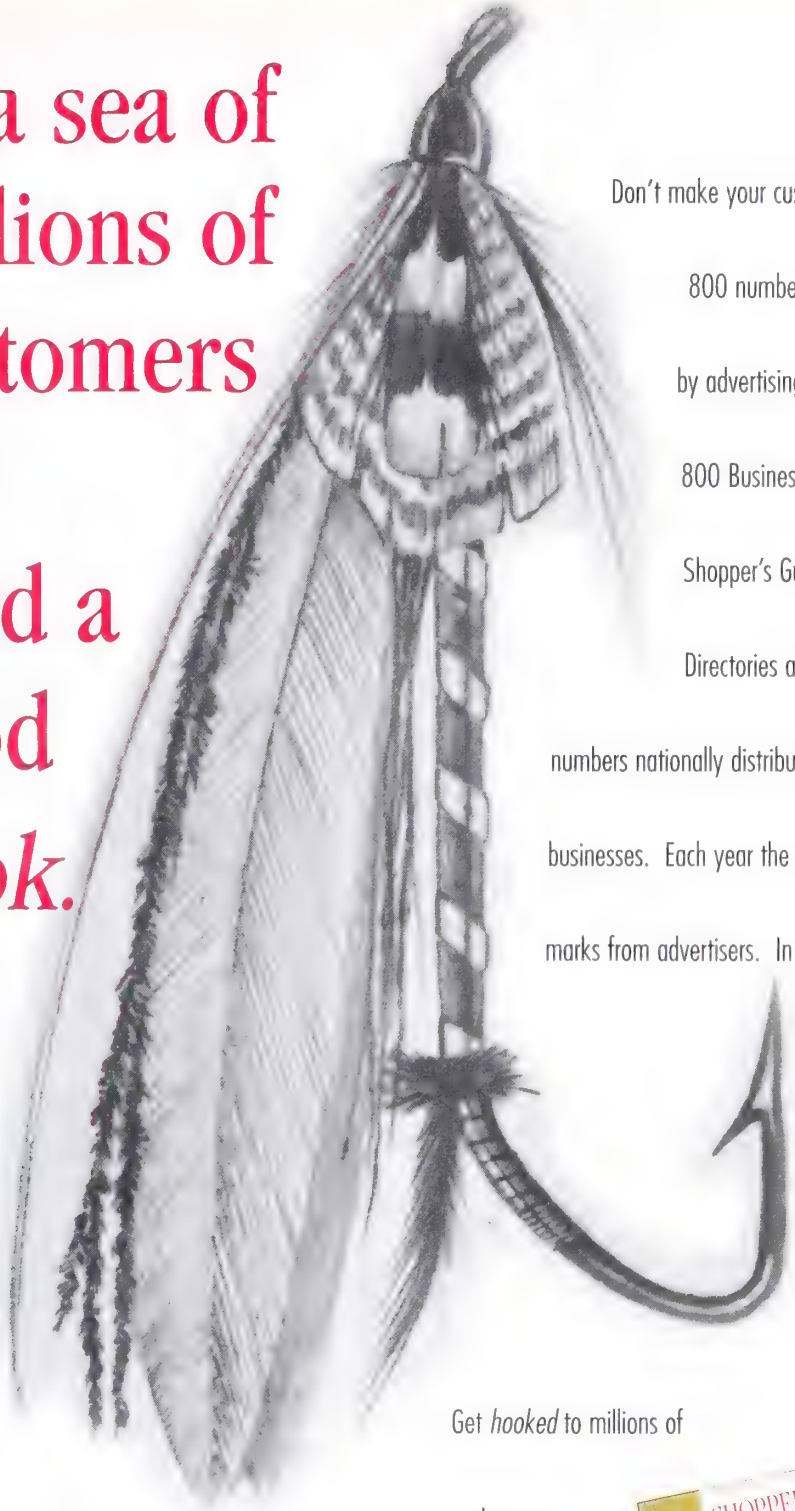

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REVISITING THE REWRITTEN SOCIAL CONTRACT

I never paid much attention to the Republican agenda, dismissing it as a political game. But after reading "Rewriting the social contract" (Cover Story, Nov. 20) and thinking about it, I realize that, if the entitlement reforms go through, we might see the beginning of an Ayn Rand-type society, where man is finally the individual our forefathers were searching for. I applaud Newt Gingrich for his vision of social reform. At this time of retrospection, I would like to ask America this question: Do we wish to live in a society that is based on moochers, or do we wish to live in a society that is based on producers?

Bradley S. Nuss
St. Peter, Minn.

I agree that entitlements must be reduced. However, I object to the Republican Congress' efforts to achieve these reductions solely by reducing benefits to the most vulnerable members of society. Ronald Reagan supported the Earned Income Tax Credit as a way to encourage work over welfare, and the Republican Congress is cutting back on this initiative.

The budget should be balanced by reducing entitlements and tax breaks given to those who don't need them. Examples include "corporate welfare," Medicare and Social Security for well-off Americans, and mortgage deductions on above-average-[priced] homes.

Mary Beth Wall
Gastonia, N. C.

You call Social Security the "biggest entitlement." As a teenager in the 1940s, my employer and I began paying money on my behalf to the Social Security system. It was part of my "Contract With America" to provide income for my retirement.

In the 1950s, these payments were at the maximum amount and continued at that level until I retired. Had these payments been invested in government bonds, the return would exceed the amount I receive from Social Security.

How dare you imply that what I receive from Social Security is a government welfare handout.

Richard B. Kopp
Scottsdale, Ariz.

You say "a GOP balanced budget is impossible while protecting corporate and individual entitlements." But there are two ways of balancing a budget. Yes, you can reduce expenditures—but you can also increase income. Both parties shy away from the second method: Increase taxes!

The GOP is willing to alter taxes, of course, but downward. For decades, Western Europe first set its social agenda and then chose taxation to support it. Several countries overshot, as BUSINESS WEEK has pointed out. But the method is a good one. The GOP idea of setting a tax pattern and then chopping social benefits to match is not acceptable, as the results of your BUSINESS WEEK/Harris poll clearly indicate.

Herbert R. J. Grosch
Las Cruces, N. M.

IN FURTHER DEFENSE OF MISSILE DEFENSE

Your article "Why the GOP has Star Wars in its eyes—again" (Government, Oct. 2) on National Missile Defense (NMD) incompletely quoted me regarding my support for a missile defense system. Your reporter implied that my support for missile defense was solely related to jobs. The portion of my testimony you deleted indicated my view that Ballistic Missile Defense is critical to our national security.

I have said often, as I did in that hearing on Jan. 25, 1995, that I believe our country should be protected against ballistic missile attack. But NMD research should proceed slowly and be targeted to develop technology that has the highest probability of success at the lowest cost, and be fully ABM treaty-compliant.

My goal is simply this—to develop and field a system as soon and cheaply as possible that will protect American men and women in battle. That's t message readers should have gotten.

Jane Harman (D-Cali
House of Representativ
Washingt

WELL-SUITED FOR QUALITY, AS WELL

I am responding to "Hong Kong ta ors suit women, too" (Personal Bus ness, Oct. 9). The tailor mentioned the article with a sign in the windo saying "Record holder for the worl fastest made-to-order suit..." is, in fa me, Ash Samtani. Kindly note that t suit, which was made in 1 hour, 50 mi utes, and 2 seconds, was stitched for charity event to raise funds for the Sa vation Army in Hong Kong.

I have been in the custom-mad hand-tailoring business for ladies ar gentlemen for 39 years. In addition our showroom and office catering to o worldwide mail-order department, have two workshops with a team of a proximately 20 tailors working full-tim for me. With my son Luke by my sid we have and are striving hard to mai tain high quality standards in tailorin our suits and shirts using the best avai able fabrics imported directly from Eng land, Italy, France, and Japan.

Clearly, our priorities are in the righ place and not otherwise, as suggeste by your writer.

Ash Samtan
Hong Kon

Editor's note: BUSINESS WEEK shoul not have implied that in delivering ta lored clothes quickly, Samtani sacr ficed quality.

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OPSY ON AN EMPIRE
American Ambassador's Account of the Collapse of the Soviet Union
ack F. Matlock Jr.
dom House • 836pp • $35

HE COLLAPSE HAT SHOOK THE WORLD

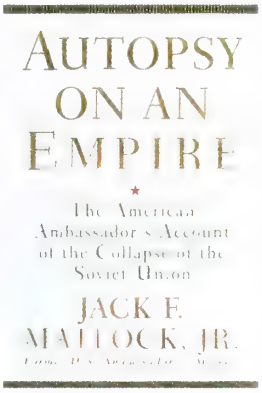
olitical fears were on the rise when Gavrill Popov, a radical Russian economic reformer, met h U.S. Ambassador Jack F. Matlock on June 20, 1991. Chatting over cof- at Matlock's residence, Popov, then vly elected Moscow mayor, suddenly ibbled a note to avoid being heard by KGB microphones. "A coup is being ganized to remove Gorbachev," the e said. "We must get word to Boris olayevich." Popov then scrawled the nes of four coup plotters, all of them people in Gorbachev's binet.

Matlock flashed the war- g to Washington on the S. Embassy's most se- e communications link. sisting that Popov's name kept confidential, he ted that the note be re- ed to Boris Yeltsin, then Berlin. Soon afterward, esident George Bush lled Gorbachev to ask out the plot.

Incredibly, writes Matlock his memoir *Autopsy on an Empire*, ish was so thoughtless that he ibbed the name of the source of the port to Gorbachev on an open tele- one line monitored by the KGB. It was st one of several bad fumbles by the ish Administration during one of the ost profound national transformations this century. Two months later, a coup as attempted against Gorbachev by actly the men Popov named. And anks partly to the former Central In- lligence Agency director, Popov ended on the plotters' short list of reform- s who would have been arrested had e coup succeeded.

Such startling inside reporting sets atlock's book apart from many dull or mpous diplomatic memoirs. His effort cceeds in large part because he managed to place himself next to the major players in a highly complicated and fast-moving political drama.

Helping Matlock were his language skills—fluent Russian and passable Ukrainian, Latvian, and other tongues—and long experience as a career diplomat. After several turns at the Moscow Embassy and service as Ronald Reagan's Soviet adviser at the National Security Council, he was named Ambassador in 1987, just as Mikhail Gorbachev's *perestroika* was taking off.



A former Dartmouth College professor, Matlock spends considerable time guiding the reader through the vagaries of the former Soviet Union, noting how the polyglot nation flew apart after communist control evaporated and various nationalist fervors were unleashed. He provides a balanced view of Gorbachev as a visionary who gave Russians their first real chance at democracy. And he shows that, with Foreign Minister Eduard Shevardnadze acting as point man, Gorbachev's foreign policy was nothing less than brilliant.

But Gorbachev flopped at home. He never had a clue about how market economics work. He missed several chances to decentralize, privatize, and end stagnant state planning. So overweening was his vanity that he could not accept the advice of loyal reformers. That led him to disastrous mistakes, such as remaking his Cabinet in late 1990 with hard-line mediocrities, including swinish Prime Minister Valentin Pavlov and thuggish chief cop Boris Pugo. These same men led the coup against him in August, 1991.

Even when the coup failed, Gorby still didn't get it. Arriving from the Crimea, where he had been forcibly detained, he continued to talk about reforming the Communist Party that had almost brought him down. He didn't understand that the time for socialism and the Communist Party had passed.

This may be fairly familiar ground, but Matlock describes it well. More riveting are his observations about U.S. foreign policy. The author is perhaps too generous toward Ronald Reagan, whom he believes had enough political self-confidence to move from his "evil empire" days to seeing Russia's democratic possibilities. But he trashes Bush.

At first, he says, the Bush Administration missed many critical opportunities when it got bogged down in a "policy review" of Soviet relations. Then, Bush became so preoccupied with the gulf war that there was never "a serious study of the transition options available to the Soviet Union...." Sensitive policy signals were sent via the wrong people—for example, by hard-line General Sergei Akhromeyev, who supported the coup. And although they did not know all of the facts, Bush advisers issued statements on the first day of the coup that made it seem like a *fait accompli*.

On the other hand, Yeltsin gets high marks for his brave stances before, during, and after the coup. While Gorbachev waffled, Matlock observes, Yeltsin always pushed on toward democracy and a market economy.

The author pretty much ends his tale on Christmas Day, 1991, when Gorbachev faded from the scene and the former Soviet Union vanished. Too bad, since Russia has changed so much since then, both for better and worse. Much of the economy is in private hands, no one waits in lines, and goods are plentiful. But few can afford those goods—and crime and corruption are rampant. Moreover, Matlock expresses little outrage over Yeltsin's bloody invasion of Chechnya that has claimed more than 25,000 lives. Gorbachev's 1991 Baltic crackdown, which Matlock strongly condemns, killed far fewer. And he doesn't say much about today's critical question: Is Yeltsin's period of leadership ending just as Gorbachev's did? Like Gorbachev, Yeltsin has failed to groom a successor and, shunning his reformist supporters, has taken refuge in a shadowy group of hard-line advisers. One saving grace, however, is that Yeltsin

MATLOCK POINTS TO BAD FUMBLES BY BUSH, WHO OFTEN SEEMED A STEP BEHIND EVENTS

All forests
are not the same.
They shouldn't be
treated
that way either.
Kyle Dege, 6, and Justin Piercey, 8. Their grandmothers are
employees of International Paper's Kellogg Forest Tree Nursery.

AT ARE THE ISSUES?

nericans have a special place ·ved in their hearts for this try's forests. After all, our ts symbolize America's wild ier and serve as an antidote to strialization. Therefore, it's ral to want our forests to be ·cted forever.

esides serving as living nders of our heritage, forests provide us with wood for r products and lumber. So it's o all of us, as a country, to t our forests in ways that ·antee they will continue to and thrive.

merica has several different s of forests that fulfill distinct ls and, therefore, need to eated differently.

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n working forests, the priority elective harvesting for high- lity woods and wood fiber ducts. At the same time, the lenge is to make sure no harm ills the wildlife, watersheds, soil uture of the forest.

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has learned from his mistakes befo something Gorbachev could never Whether Yeltsin can do that today w decide Russia's immediate history.

BY PETER GALUSZ

Galuszka is BUSINESS WEEK's Mo cow bureau chief.

BOOK BRIEF

THE LOST CITY
Discovering the Forgotten Virtues of Community in the Chicago of the 1950s
By Alan Ehrenhalt
Basic Books • 310pp • $24

MY KIND OF TOWN

For many, the 1950s oozed a suffoca ing conformity. Ike sat serenely the White House while Congress co ducted witch hunts for Communist Countless junior executives—William Whyte's famed "organization men" trudged off to work, leaving the repressed wives at home. Sexual mor were positively Victorian. Segregati was the rule.

Chicago reflected all this, of cours But in *The Lost City*, a portrait of th town in the '50s, Alan Ehrenhalt a gues that the era offered much th was positive—especially a set of rul that would vanish in the "moral deluge of the '60s. Baby boomers, he write would be "seduced by the idea choice" (in breakfast cereal as in bir control), an idea marketers promoted.

In the '50s, though, there were limit Relationships lasted. People would more abandon the local butcher tha they would a spouse. Corporations, to scarcely considered uprooting for th sake of lower costs elsewhere. Eve Ernie Banks, the brilliant Chicago Cub shortstop, never asked to be trade though he played for the most pathet of clubs at a relatively low salary.

Much of this is the familiar lament conservative social critics—though Ehre halt scores the right for its "market wo ship." What makes *The Lost City* di tinctive is its evocation of The City Th Worked. With portraits of three neighbo hoods—white, blue-collar St. Nicholas Tolentine parish, the black Bronzevil area, and suburban Elmhurst—Ehre halt, the executive editor of *Governin* magazine, brings town and time to lif Whether or not you share the author hope that we will trade some of our pe sonal freedoms for community's sake, yo can't help but hanker for a time whe you knew who your shortstop would b

BY DOUG ROYALT

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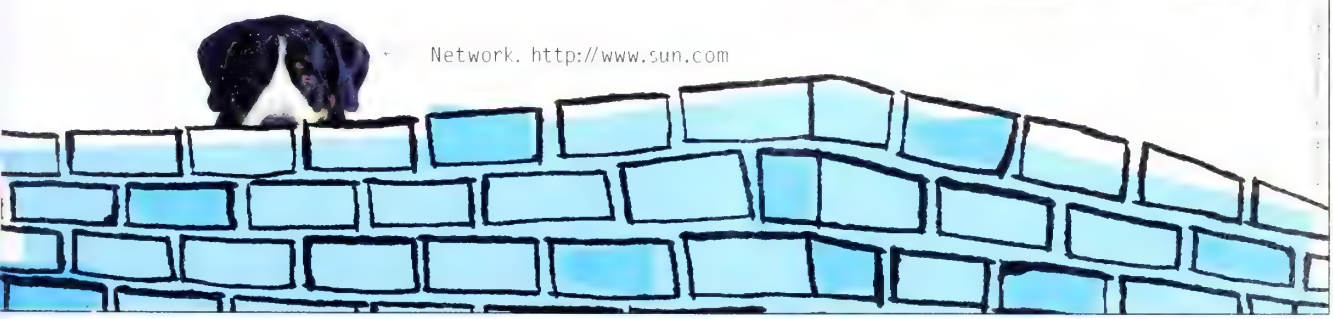

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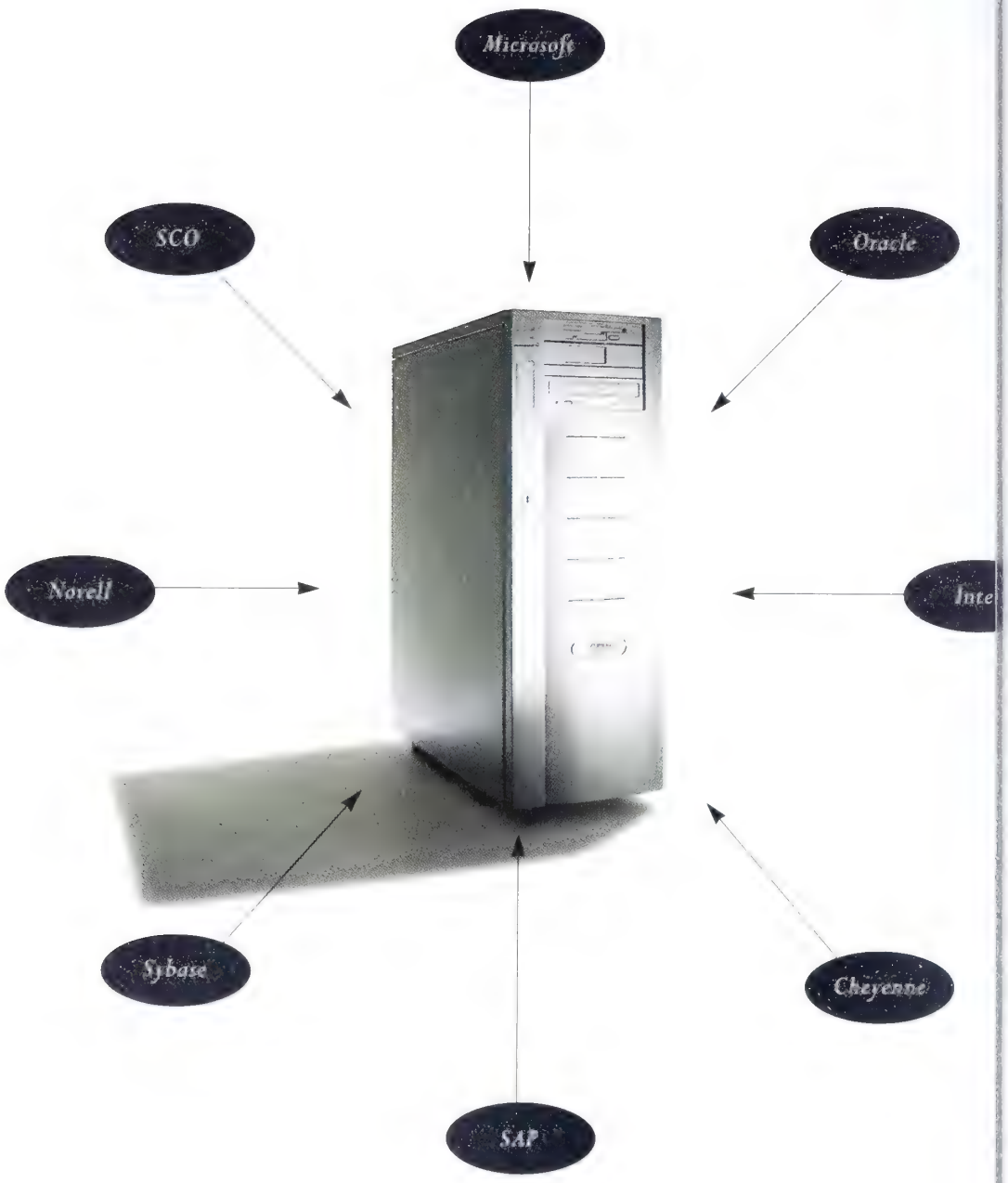

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COMPAQ

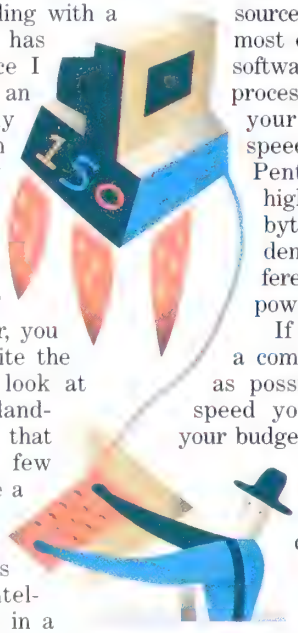
Has It Changed Your Life Yet?

BY STEPHEN H. WILDSTROM

GO AHEAD, RELAX AND BUY THAT PC

Pick wisely, and there's little worry your new baby will be tomorrow's dodo

I am shopping for my sixth-generation home PC and struggling with a question that has vexed me since I brought home an Apple II: Why buy now, when in a few months I can almost certainly get something better and cheaper? Sooner or later, you just have to bite the bullet, and a look at the industry landscape suggests that the next few months may be a better time than most.



The reason is that the Intel-based world is in a bit of a technology hiatus. The transition to the Pentium processor is largely complete. Machines using its successor, the Pentium Pro, are now available, but don't look for the Pro on desktop machines for at least a year.

GNAWING HUNGER. Manufacturers say the most popular model for the home market today features a 100-megahertz Pentium, 8 megabytes of RAM (with many buyers wisely opting for 16), a hard drive of at least 1 gigabyte, and a quad-speed CD-ROM player. Slower 75-Mhz Pentiums are now entry-level machines.

My new computer will almost certainly be a 133-Mhz Pentium, the fastest currently available. Neither you nor I really need that much power—today. However, big productivity programs such as Microsoft Office are growing ever more hungry for resources. And getting the most out of multimedia software demands a fast processor. (Don't expect your Web surfing to speed up with a new Pentium, though. A high-speed 28.8 kilobytes-per-second modem will make a difference, but processor power won't.)

If you want to keep a computer for as long as possible, buy all the speed you can afford. If your budget is tight, you can get by with a 120- or 100-Mhz machine. But don't skimp on memory; a lot of Windows 95 software isn't happy with less than 16 megabytes of RAM.

If you can, consider holding off until early next year, when Intel Corp. will begin shipping a 150-Mhz Pentium and cuts prices on existing chips. Hot new 150-Mhz machines are likely to be priced around where the 133s are today, with the other prices moving down a notch. The 150, and the 166-Mhz chip due out later in the year, should boost raw speed by about 12% and 24%, respectively.

On the other hand, you almost certainly don't want to wait for the Pentium Pro, also known as the P6. Some P6-based computers are now available, but their price tags, generally starting at around $4,500, put them out of reach for most buyers. Those prices will come down, but for technical rather than economic reasons, the Pro will become a consumer item much more slowly than the 486 or the Pentium did.

Intel optimized the Pentium Pro to run well with programs and operating systems that gulp data 32 bits at a time. It's a screamer running Microsoft Windows NT, IBM OS/2, or Novell NetWare—all full 32-bit operating systems (as is Apple's Mac OS). However, the P6 is often slower than a Pentium in running Windows 95, which is a hybrid containing many 16-bit components. This largely restricts the P6 to use as a server or high-end workstation.

NASHVILLE UPSTREAM. Over time, Intel may design a new version of the Pentium Pro that does better with 16-bit code. Or Microsoft may offer a pure 32-bit Windows 95 at some sacrifice in compatibility with old programs. Company officials decline to say whether that might happen in the version code-named Nashville, which is currently under development.

Intel will continue to tweak more performance out of the Pentium, and there is talk of speeds as high as 200 Mhz. Change, however, will be incremental. So you can buy a computer today with some confidence that it won't be eclipsed instantly by newer technology.

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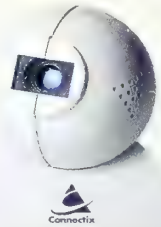

a baseball that sits on your monitor and allows conferencing over a local-area network or the Internet. An ISDN or other fast telecom connection is a prerequisite. The video quality is a bit coarse, and a low frame rate causes motion to appear jerky. But overall, the performance is remarkable at the price. A future software revision will allow Windows and Macintosh versions to work together.

SOFTWARE

SUITE DEAL

Speaking of deals, ABC Graphics Suite from Micrografx (800 653-2610) offers Win95 users a lot of quality software at a very good price: $300. If you already own a graphics program, you can buy a "competitive upgrade" version for $150. The package includes new versions of the Designer technical drawing program, Picture Publisher graphics editor/ retoucher, ABC FlowCharter, and an image-library manager. All are designed to work smoothly with Microsoft Office for Windows 95. The suite comes with two CD-ROMS full of clip art and photos.

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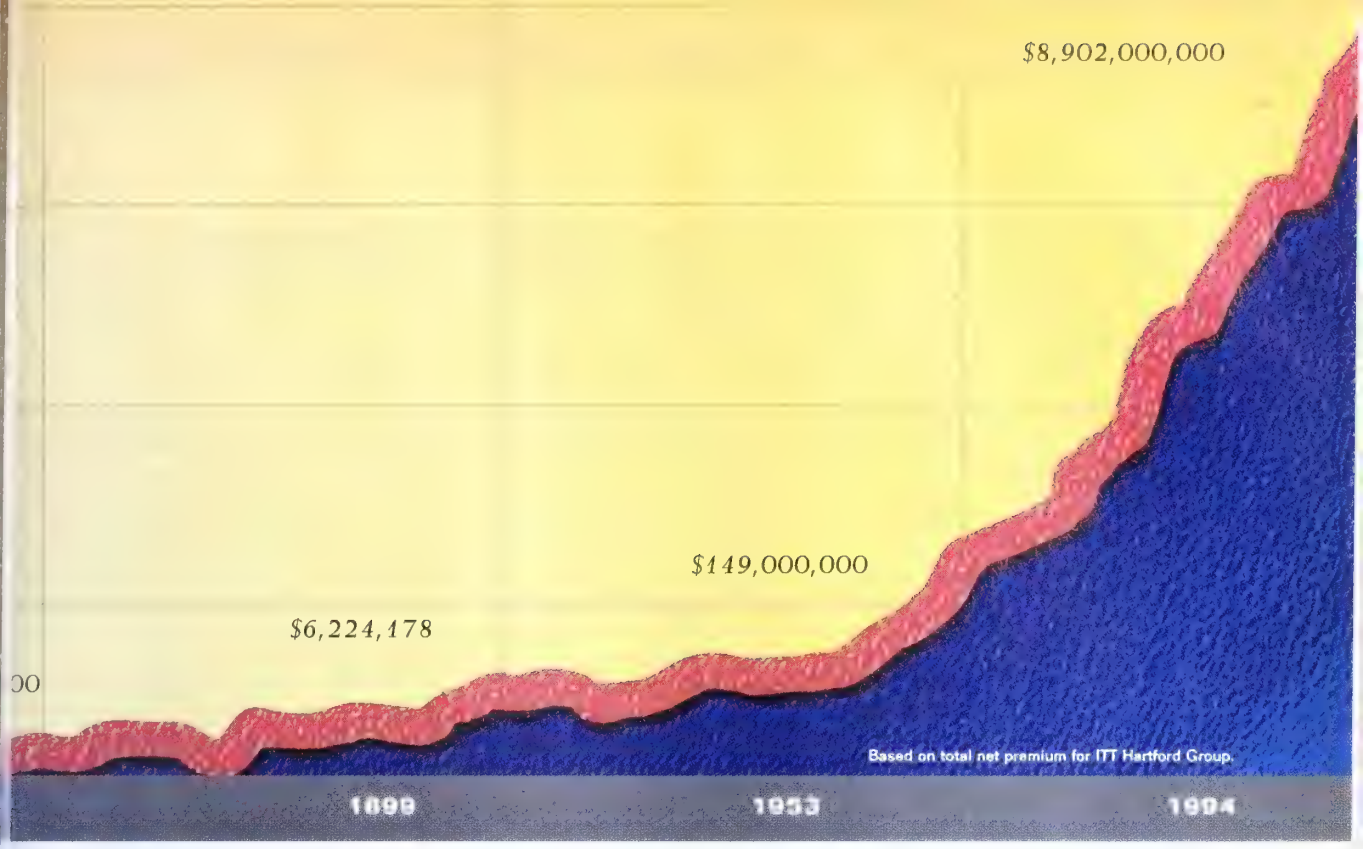

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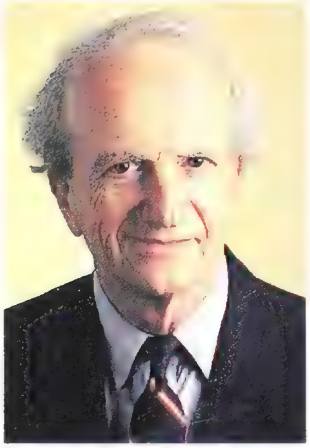
BY GARY S. BECKER

IF YOU WANT TO CUT CORRUPTION, CUT GOVERNMENT



LESS GRAVY Reducing the array of goodies that politicians and bureaucrats dole out is the only surefire cure

New evidence of corruption by leading politicians and businesses is surfacing in virtually every corner of the globe. The list of kickback, payoff, and bribery scandals seems endless: Korea, Japan, Mexico, and Nigeria are in the news now, but few countries have escaped unscathed. There is no magic bullet to cure this disease. Nevertheless, much smaller, democratic, and business-like governments would help a lot.

People like to think the bribery in their country is unique—that their politicians, bureaucrats, and businesspeople are especially venal. But the source of official corruption is the same everywhere: large governments with the power to dispense many goodies to different groups.

Every regulation, law, and public program, whether it's a government contract or an export subsidy, can be manipulated to favor particular interests. Companies try to influence these decisions through legitimate lobbying and by arguing their case for government help. But some are also tempted by the huge sums involved to bribe and use other unlawful means to influence the outcomes.

The process of competing for government favors is called "rent-seeking" in the literature on political economy. It has a long history and is inevitable whenever governments affect the destinies of companies. But rent-seeking has grown dramatically because public spending and regulations are now so extensive. Politicians and bureaucrats may be no more mercenary than other groups, but they face unusually strong temptations to sell their power for money and other gains. Some businesses are willing to provide these temptations, perhaps justifying their behavior with the excuse that others are also doing it.

FIERCE WATCHDOGS. Corruption distorts the functioning of an economy because it leads government officials to take actions that are not in the general interest. Corruption can even choke off economic development by discouraging honest entrepreneurs and by sharply and arbitrarily raising the cost of doing business.

Dictatorial regimes often appear to have little corruption, but that is an illusion caused by suppression of dissent and the press. It is no accident that evidence of extensive bribery surfaced in Argentina, Brazil, Korea, and Mexico only after effective opposition parties and free presses developed. Democracies generally have much less corruption than clos systems: Opposition parties have the incenti and ability to expose the misbehavior of t ruling party.

Yet the huge gains from rent-seeking gua antee that democracies also have disturbi levels of corrupt behavior. Some democrat countries, including Japan and Italy, ha seen widespread cases of public officials a cepting money in exchange for favors to bu ness friends. Although instituting large cuts the scope of government is the only surefi way to reduce corruption, that is seldom me tioned by the Republican leaders in the U. who advocate much smaller governmen Highlighting the effects of corruption ma boost support for government retrenchment- even among those who would favor a larg public sector in a more perfect world. Corru tion scandals in Japan, for example, helped i crease pressure for deregulation.

AUCTION BLOCK. Still, some reforms are po sible even without huge reductions in go ernment. Subsidized lending to large or sma businesses is not necessary under a compet tive banking system, and these subsidies a an open invitation to official corruption. A parently, the supply of cheap loans from government-controlled banking system wa a major source of the scandals in Korea.

Open bidding should be required wheneve valuable assets are transferred from the pul lic to the private sector. In particular, righ to broadcast over radio and television spe trums and to use public lands for oil explor tion or timber production should go to th highest bidders, subject only to environment and other safeguards. Production quota whether they refer to fishing (BW—Sept. 18 pollution, imports, or crops, should also b sold in open markets, not given to grou with political clout.

Unfortunately, all countries continue to giv away rather than sell valuable public prope ties. I believe the reason is that politician and bureaucrats are well aware that this rai es their power over business, and voters hav not been demanding that business be force to bid for quotas and other privileges.

The worldwide trend toward democrati governments is helping to expose politic corruption more quickly. But it will remai disturbingly high as long as governments co tinue to have so much power over the fo tunes of business.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution.

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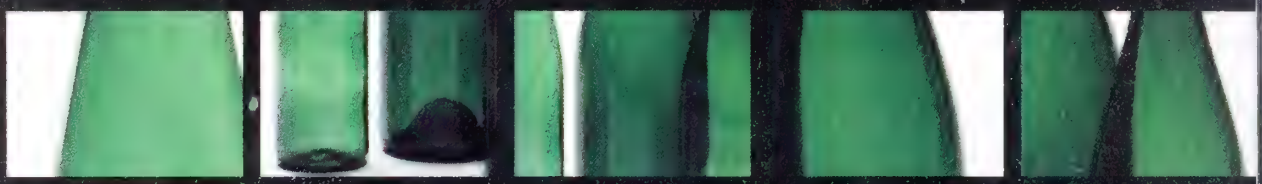

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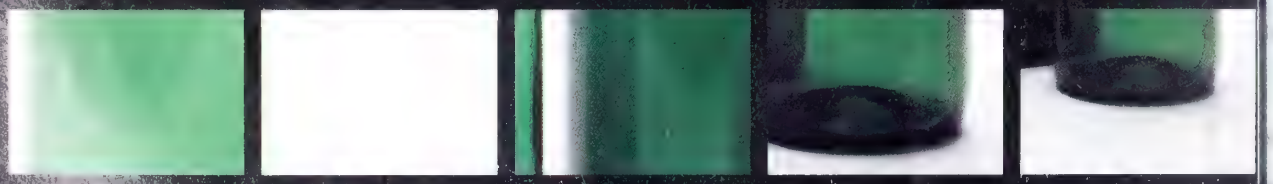

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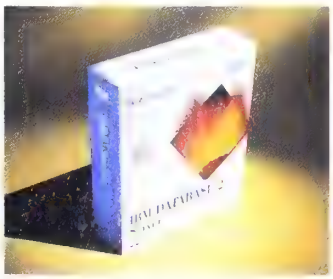

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BY GENE KORETZ

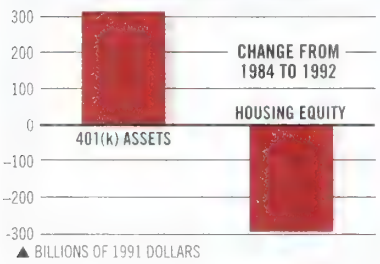
A CLUE TO THE SAVINGS RIDDLE

Has mortgage debt offset savings?

Since the early 1980s, households have socked away hundreds of billions of dollars in tax-based savings-incentive plans such as 401(k)s and Individual Retirement Accounts. Yet consumption has stayed relatively strong and the personal savings rate severely depressed.

One reason for this apparent contradiction is suggested by an intriguing study by Eric M. Engen of the Federal Reserve Board and William G. Gale of the Brookings Institution, which links two striking developments: the hefty rise in 401(k) plan participation and assets in the late 1980s and early 1990s, and the sharp rise in mortgage debt over the same period. Their analysis indicates that households have tended to shift savings away from tangible assets in the form of home equity to financial assets in tax-favored savings plans.

HOUSEHOLD WEALTH: 401(k)s UP, EQUITY IN HOMES DOWN



DATA WILLIAM G. GALE, BROOKINGS INSTITUTION

Using nationwide household survey data and controlling for such variables as age, earnings, and wealth, the two economists found that households with at least one worker eligible to participate in a 401(k) plan did accumulate significantly more net financial assets between 1987 and 1991 than similar households without eligible workers. But counting housing equity, they found no significant difference between the two groups in total wealth accumulation. That's because eligible households took on substantially more mortgage debt than noneligible households.

On closer analysis, the researchers found that the higher relative growth in financial assets was confined to 401(k)-eligible households that owned their own homes (and thus had access to mortgage debt). Asset growth of 401(k)-eligible households that were renters rather than homeowners mirrored that of similar noneligible households.

Thus, the vaunted stimulative impact of 401(k) eligibility on household savings and financial asset accumulation seems to have occurred at the expense of growth in equity in homes. And that's true whether consumers consciously use tax-deductible mortgage debt to fund tax-deferred savings vehicles or simply decide to take out a home equity loan after contributing to a 401(k) plan.

The bottom line: Wildly popular 401(k) plans could be costing the government hefty revenues with negligible impact on consumer savings and wealth.

VIETNAM SHIFTS INTO HIGH GEAR

But the trade gap is widening

Even in fast-growing Asia, Vietnam's economy is something to shout about. After averaging 8.5% in the last three years, its growth rate should hit at least 9.5% this year.

As economists at Merrill Lynch & Co. note, the nation's leaders have pursued a multipronged strategy—including currency devaluation, price liberalization, privatization of state enterprises, and the pursuit of foreign investors—to convert it into a market-oriented economy. Bolstered by heavy infrastructure development, investment is running more than 20% of gross domestic product, and both industrial production and exports are up about 30% this year.

Vietnam's assets include high adult literacy, very low labor costs, and rich natural resources, including oil. David Cheng of Morgan Guaranty Trust Co. says foreign investment commitments, at $6.2 billion through September, are coming in at double last year's pace.

The economy's biggest hurdle, adds Cheng, is the threat of overheating. Rising capital and consumer goods imports are widening the trade deficit, inflation is more than 15%, and the government's deficit is growing. The likely remedy: tighter fiscal policy.

VIETNAM'S ECONOMY ROCKETS AHEAD

DATA INTERNATIONAL MONETARY FUND, MORGAN GUARANTY TRUST CO.

THE STEALTH BUDGET SURPLUS

A strong omen of fiscal restraint

In the current battle over the feder budget, one striking development h not gotten the attention it deserve While the deficit for fiscal 1995 came in only $164 billion, or just 1.8% of gross d mestic product, the so-called primary ba ance—that is, the budget position e cluding interest payments—swung in surplus by a huge $68 billion.

This shift is important because, economist Joseph Carson of Dean Witt Reynolds Inc. notes, "interest paymen reflect the government's past sins, whi the primary balance reflects its curre fiscal morality." In other words, discr tionary government spending has bee slowing sharply.

Although that bodes well for furth restraint, the latest shift to a prima surplus is the largest in recent memor Moreover, since 1969, the governme has run a primary surplus on only fo prior occasions, and each occurrence e ther preceded or coincided with a rece sion. In other words, says Carson, "fisc policy is very, very tight, a develo ment that the Federal Reserve can i nore only at the economy's peril."

HISTORY SMILES ON THE MARKET

The bulls run in election years

Worriers about the performance the stock market next year ma take comfort in the so-called Presidenti election cycle, advises Marc M. Groz Quaternion Group Inc., a mathematic consulting firm. Groz notes that ove the past 50 years, Standard & Poor 500-stock index has never produced negative total rate of return in the thi or fourth year of a Presidential term.

Further, average stock returns i those two years have been particular strong. Since 1945, total returns on th S&P 500 averaged 9.3% and 9.5%, r spectively, in the first two years of t election cycle, but 20.7% and 13.7% i the third and fourth years. And in th past 25 years, the total return in the f nal year of Presidential terms has ave aged a more impressive 17.6%.

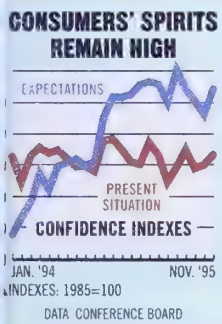
In short, history favors stock ma ket bulls next year. In fact, the la time stocks fell in the final year of Presidential term was way back in 194

JAMES C. COOPER & KATHLEEN MADIGAN

HOPPERS WILL BE SPREADING OME CHEER AFTER ALL

U.S. ECONOMY Two-thirds of the way through the fourth quarter, all eyes e fixed on the sector that accounts for two-thirds of e economy: consumer spending. Are shoppers bellying to the cash registers this holiday season? Or are useholds too debt-laden to splurge?

The performance of consumer spending does more, of urse, than just set the tone for this quarter's gross mestic product. It also shapes the outlook for next ar. If retailers end 1995 with an excess of goods, ling orders and production cuts will set the economy a shaky course in early 1996.



Rest easy. That downbeat scenario seems unlikely. Although retailers reported only lukewarm results over Thanksgiving weekend, and many households are carrying a lot of debt, consumers are still very confident in the economy (chart) and real wages are finally rising.

So even though consumers are clearly not up to their holay performances of recent years, many still appear to ve the will and the way to buy. However, when all is id and done, this holiday season, with its price disunting, may show a sharp contrast between conmers' good cheer and retailers' humbug profits.

Real consumer spending this quarter won't equal e 2.9% annual rate of rise posted in the third quarter, it it is likely to grow close to 2%. The latest housing arts data indicate that construction is exerting some ag on real GDP, as is slower inventory growth.

However, if last quarter's turnaround in foreign trade ntinues, with improvements especially on the export le, that could mean the difference between an econoy growing above 2% this quarter or below it.

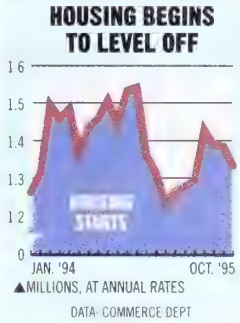
OR THE ECONOMY'S PERFORMANCE this quarter, e early takes on holiday shopping may overlook two iportant factors, because most of the reports conntrate on traditional department-store sales.

First, with few "must-have" items on this year's gift sts, consumers are searching for bargains. So while ice-cutting means that retailers are reporting a weak llar value for overall sales, shoppers still may be alking out of the stores with more merchandise than ey bought last year.

Second, the big purchases this year are computers and software, reflecting the increasingly attractive prices for Pentium-chip machines. Consumers generally don't go to retailers like Sears or Nordstrom to buy a computer, but those purchases will wind up in the consumer-spending data for this quarter's GDP.

One bit of good news for retailers was the unexpected jump in consumer confidence in November. The Conference Board said that its confidence index rose to 101.4, from 96.3 in October. Although the November level was below readings earlier in 1995, the board said: "Gains in confidence have traditionally signaled stronger-than-anticipated retail sales during the holiday season."

Consumers showed increased optimism over their current economic situation, as well as the economy's prospects six months down the road. This upbeat mood came as the White House and Congress played games over the budget, suggesting that households may be unperturbed by the partisan goings-on in Washington.



Consumer confidence is also important to the housing sector. Homebuilding and sales are weakening, and that will, at least temporarily, knock out an important support to the expansion this quarter.

Housing starts fell 3.7% in October, to an annual rate of 1.34 million (chart). Both single- and multifamily sectors posted drops. The decline was the third straight fall—although it should be noted that these drops came after a 10.3% jump in starts in July.

The slowdown reflects the waning lift from lower interest rates, which had kept housing demand high during the summer. However, in October, sales of existing homes fell 1.9%, to an annual rate of 4.07 million.

Housing is likely to tread water until a federal budget has been hammered out in Washington. A credible balanced-budget plan could tip the balance toward a rate cut by the Federal Reserve. Mortgage rates could then fall, making home ownership more affordable. That will push up demand for construction materials, appliances, and furnishings, leading to renewed vigor in the idling industrial sector.

ALTHOUGH THE SLOWER PACE of domestic demand has crimped activity in the factory sector, many manufacturers are finding strength in foreign demand. The trade deficit of goods and services was virtually unchanged in September, coming in at $8.35 billion, just

shy of August's $8.36 billion. Exports grew 1.6%, slightly exceeding the 1.4% rise in imports.

Import growth is finally responding to the slowdown in domestic demand. Real merchandise imports in the third quarter were up 11.5% from a year ago, down sharply from their 16.7% advance in the third quarter of 1994.

That means that after years of falling behind, the growth in real merchandise exports is now surpassing the pace of imports (chart). That hasn't happened since the U. S. was coming out of the last recession.

Exports were up 14.5% in the year ended in the third quarter. The pickup rises to about 16% when you exclude the 10.9% plunge in shipments to Mexico so far this year. The U. S. is increasing its shipments elsewhere in the world. In the year ended in the third quarter, exports were up 15.9% to Europe; 16.5% to Latin America, excluding Mexico; and 21.8% to the East Asian emerging markets. Even shipments to slumping Japan are up 20%.

THE BIG GAINS have been in exports of manufactured products: capital equipment, cars, and consumer goods. The Association for Manufacturing Technology reports that foreign demand for U. S. machine tools is especially strong. New orders in the 10 months ending in October are three times bigger than orders in the same period of 1994, and shipments are up 40%.

The export advance reflects the lower exchange ra of the dollar, as well as the better productivity U. S. manufacturers, which has kept the growth unit labor costs down. What could derail manufactu ing's prospects is the trend in business inventories. a report delayed by the government shutdown, tl Commerce Dept. reported that inventories at manufa turers, wholesalers, and retailers rose 0.3% in Se tember, while sales were up 0.4%.

Retail inventories alone rose 0.3%, faster than the 0.1% gain in sales. That means that at the end of the third quarter, the ratio of store inventories to sales was higher than at the same time in 1993 or 1994. In those years, strong buying in the fourth quarter cleared out many of those goods.

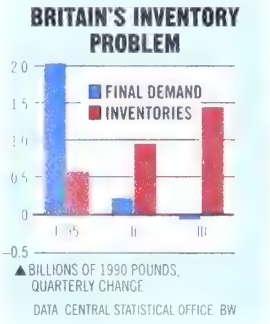
Retailers, of course, still have time to move this year's merchandise and pav the way for new factory orders, output, and jobs late on. But merchants who try to sell without price prom tions are likely to be disappointed. In what has becom a holiday game of chicken between bargain-huntin consumers and sales-hungry retailers, store owne will once again be the first to blink.

BRITAIN

A BUDGET THAT MAY PLEASE NOBODY

Chancellor of the Exchequer Kenneth Clarke's 1996 budget tries to balance vote-getting with fiscal prudence. Trouble is, it may fail to impress both the electorate and the financial markets.

With elections due by June, 1997, the Tories are attempting some noninflationary pump-priming to lift their record low standing in the opinion polls. But for most Britons, who are not adjusting well to the intangible benefits of low inflation, the budget may not go far enough.



Clarke's deficit-neutral blueprint offers a modest cut in the basic rate of income tax, from 25% to 24%, the first since 1988. That, plus breaks for everything from married couples to Scotch whisky, will be paid for by a £3.2 billion ($5 billion) cut in spending. Clarke bypassed a bigger package of cuts, choosing to lift spending for health and education, key Labor Party issues. Labor's Tony Blair called it the "7% up, 1% down" budget, citing a 7% tax hike since the 1992 election.

Although the 1996 deficit is projected to fall to £22.5 billion from £29 billion in 1995, the markets were disappointed that 1996's red ink is sharply greater than the £16 billion forecasted. Clarke also lifted his economic growth forecast to a rosy 3% for next year, up from 2.75%. Analysts say that pace can be met only with big interest-rate cuts.

With the economy slowing—perhaps sharply—such rate cuts may well be on the way. Third-quarter growth in real gross domestic product was revised lower, especially nonoil GDP, with annual growth slowing to 2.1%, half of 1994's pace. A buildup of excess inventories foreshadows further weakness that will extend into early 1996 (chart).

The Bank of England recently lowered its projection for underlying inflation—retail prices excluding mortgage costs—for mid-1997 to "just above" the 2.5% government target, based on a firmer sterling. Now, slower growth may allow a further adjustment of that projection, justifying the rate cuts necessary to spur growth. But that doesn't mean voters' opinions of the Tories will follow suit.

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TAXES

ENJOY IT —WHILE IT LASTS

States are feeling flush, but financial trouble looms

Just three years ago, a budget crisis almost brought California's government to a grinding halt. A deep economic funk and a string of natural disasters had plunged the state's $39 billion budget deep in the red. Legislators were practically coming to blows over proposals to hike taxes and slash education budgets. Fast forward to today. An economic revival has produced a healthy $676 million budget surplus. Now, legislators can't decide whether to cut taxes or boost spending on schools.

BRAVE TALK. A Golden State anomaly? Typical is more like it. Across the U.S., state governments are posting some of their strongest financial results in a decade. According to the National Association of State Budget Officers, states emerged from fiscal 1995, which ended in June, with a combined surplus of an estimated $20.2 billion. That will drop a bit this year, but states will still be a solid $15.9 billion in the black when the books close next June.

Legislators across the country are sharing the wealth: 28 states are rewarding citizens with tax cuts. Others are hiking outlays for education and prisons. And with programs to streamline government kicking into high gear, many state politicians have never been more optimistic. Says Mel Carnahan, the Democratic governor of Missouri, which boosted its corrections budget 23% this year: "We're well placed to deal with the future."

Ah, the brave talk of a bountiful budget season. It may be tougher to talk proud when governors butt up against harsh reality. In late November, President Clinton signed on to the Republican plan to balance the budget in seven years. The budget package, expected by Christmas, will shift the burden of managing welfare, Medicaid, and dozens of other federal programs to statehouses, while slashing federal outlays 30% by 2002.

That could spell financial trouble for many states. Most rely on the feds for some 33% of their revenue. All told, the cuts proposed by Congress could cost the states more than $360 billion from

CALIFORNIA

Lawmakers are arguing over a $676 million surplus—should it go to boost education or cut taxes?

**INCLUDES BEGINNING-OF-YEAR BALANCE

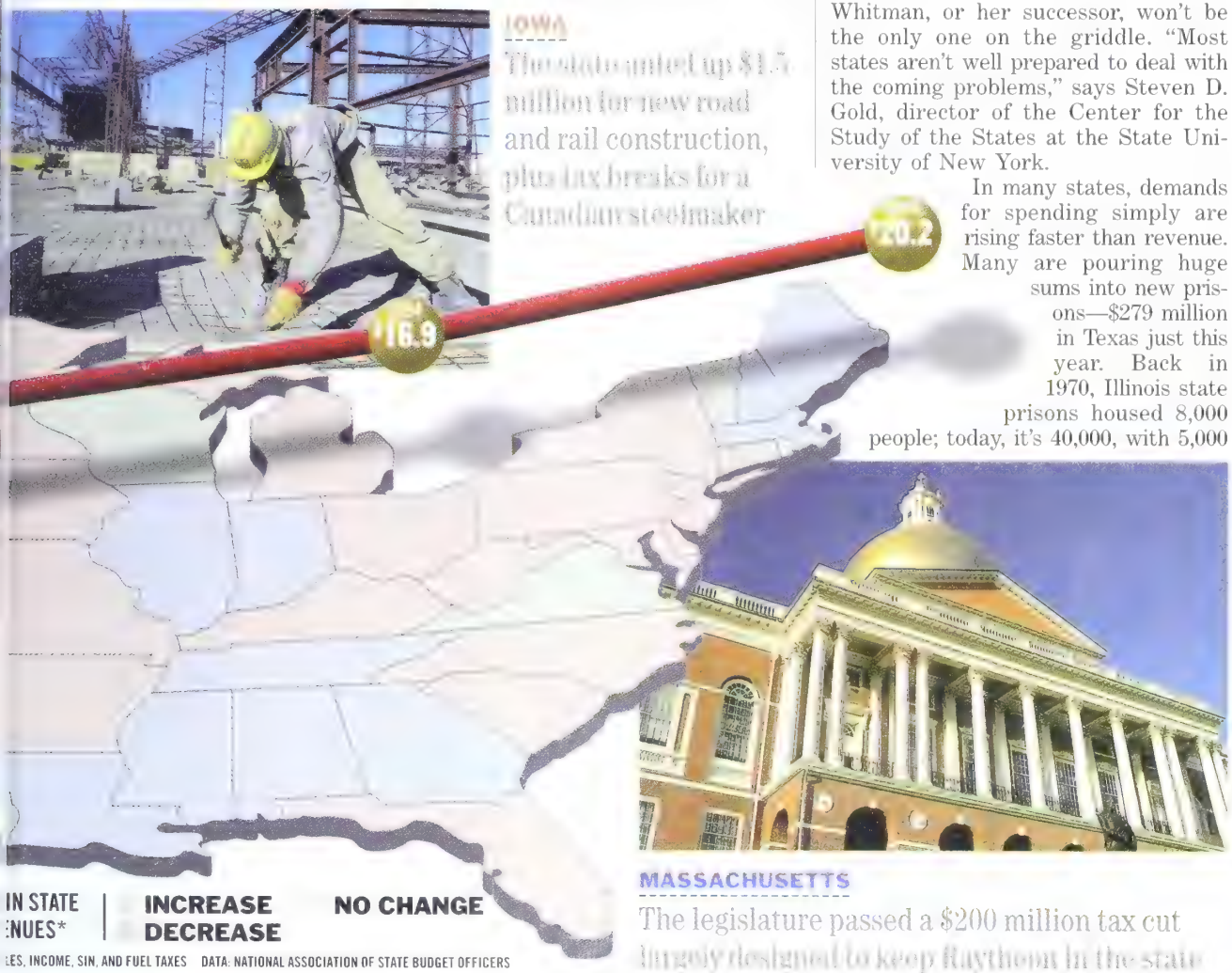
6 to 2002, forcing radical spending s or tax increases. University of Min- ota economist John E. Brandl recent- co-authored a report that predicted nesota would post a $1.5 billion bud- deficit by 2001—even before federal s. Says Brandl: "All this talk about v things are going fine is ridiculous." t's also predictable. Back in 1991, st states, like California, were reeling. cession sliced tax revenues, while ris- unemployment forced governments spend more. To fill the gap, 28 states sed taxes from 1990 to 1992. And y held the line on spending: It was in 1991 and grew only 1.5% in 1992. e combination helped them weather bad times. When the economic expansion began fattening coffers in 1993, state politicians celebrated by boosting spending, cutting taxes, and promoting states as models of how modern government could work. After Republicans swept elections nationwide in 1994, the talk intensified.

Now, those government reformers may be about to run into trouble. New Jersey Republican Governor Christie Whitman is a good example. She arrived in office two years ago promising to cut the state's income tax by 30% over three years. This year, she achieved her goal—a year ahead of schedule. Better yet, she delivered a tax cut worth $444 million so far, while limiting state spending increases to 1.7% a year, down from over 8% in years prior, and boosting the state's surplus to almost $541 million in fiscal 1996.

A model for Washington to follow? Maybe not. Several short-term fixes, including a $2 billion cut in contributions to New Jersey's state employee pension funds based on a change in actuarial assumptions, helped Whitman balance the budget. Because of federal budget cuts, New Jersey may soon find itself in a bind. The Center on Budget & Policy Priorities figures the state will lose $350 million in federal grants in fiscal 1996 if Congress follows through on its budget plans. The losses will grow ever steeper until 2002, when cuts of $2.9 billion will hit, adding up to a federal aid cut of $11 billion over the seven years.

GROWTH STATES, TOO. If New Jersey's robust economy falters—which, given economic vagaries, is likely to happen sometime in the next few years—it will almost certainly have to exact deep spending cuts or even raise taxes. And Whitman, or her successor, won't be the only one on the griddle. "Most states aren't well prepared to deal with the coming problems," says Steven D. Gold, director of the Center for the Study of the States at the State University of New York.

In many states, demands for spending simply are rising faster than revenue. Many are pouring huge sums into new prisons—$279 million in Texas just this year. Back in 1970, Illinois state prisons housed 8,000 people; today, it's 40,000, with 5,000 more expected by 2000. The number of Illinois children who were wards of the state hit 45,000 this year, up from 17,000 in 1990. The state has balanced its budget, in part, by paring aid to education. But that only goes so far. Even without federal cuts, University of Illinois economist James Nowlan figures Illinois will



ıany others, the Lone Star ıas increased spending. uring $279 million into the ng of new prisons

face a deficit of $1.8 billion by 2005.

Even growth states such as Florida aren't exempt from trouble. Florida's revenue will increase $800 million during fiscal 1996, but it still could suffer a $900 million budget shortfall because of its rising spending on schools and prisons. And that's before the federal cuts hit home. Additional students will cost Florida $170 million this year and prison beds an extra $77 million. Says Florida budget director Robert B. Bradley: "We'll have to cut to balance the budget, or raise taxes, but I haven't heard anyone talk about raising taxes."

AN UGLY FUTURE. Some states already are beginning to face their ugly future. In Maryland, where the slowing economy has pushed down tax collections, new Democratic Governor Parris Glendening is already looking at a $59 million budget shortfall. That could double if Congress cuts the capital-gains tax. Glendening plans to meet the problem this year by eliminating up to 1,000 state jobs. But even with the cuts, Maryland could face a steeper $117 million deficit in fiscal 1997, so Glendening is starting to revise his plan to cut income taxes 5% to 10%.

For now, though, spending hikes and tax cuts are the order of the day in most states. Michigan will cut taxes $1.2 billion over the next five years beginning in fiscal 1996. Oregon's treasury is so full it's giving corporations a 50% tax credit on their 1995 taxes. And Indiana plans to boost higher education spending 8.7% this year.

Major bucks are also going to keeping business happy. In mid-November, the Massachusetts legislature passed a $200 million tax cut largely designed to keep Raytheon Corp., the state's largest employer, from taking its huge manufacturing operations to a lower-cost state. Iowa has anted up $1.5 million in road and rail construction funds and a package of tax breaks for IPSCO Steel Inc., a Canadian steelmaker building a minimill in rural Muscatine County that's due to open in mid-1996. The state hopes the $375 million facility will provide 300 jobs.

Undoubtedly, these flush days will be but a fond memory soon enough. Then, as in tough times past, statehouse budget fisticuffs may begin anew.

By Kevin Kelly in Chicago, with Joseph Weber in Philadelphia, Gail DeGeorge in Miami, and A. T. Palmer in Lake Forest, Ill.

HIGH NOON ON THE ALASKAN TUNDRA

A chill November wind swept across the Alaskan tundra, a bitter reminder to Sarah James that it was time to return to Washington. James, a Gwich'in American Indian, is making a last-ditch effort to stop Congress from opening the Arctic National Wildlife Refuge to oil exploration. She argues that drilling would disrupt the migratory routes of caribou—the source of her tribe's food, legends, songs, and dances. "Caribou is sacred to us," says James, a member of the tribal committee fighting the oil drilling. "Without it, we wouldn't be able to exist."

CULTURE CLASH: *The Gwich'in are battling a powerful coalition of oil interests*

The 7,000 Gwich'in have become key players in a white-hot lobbying battle on Capitol Hill. At issue is whether to allow drilling in the refuge's 1.5 million-acre coastal plain, one of the last untapped oil fields in the U. S. The GOP has attached a measure to the budget bill allowing the drilling, making it a key issue in fractious budget talks. President Clinton, eyeing polls that show the environment is a top concern, has vowed to veto any bill that contains the provision.

POWERFUL FOES. Joining the Gwich'in in their antidrilling crusade are environmental groups such as the Sierra Club and the Wilderness Society. They argue that drilling in the fragile ecosystem would interrupt caribou calving, damage polar bear habitats, harm snow geese, and mar the beauty of the pristine wilderness. The U. S. doesn't need the oil, they say, pointing to a Nov. 28 decision by Clinton to lift a 22-year export ban on oil drilled in Alaska's North Slope.

But environmental groups have met their match in Alaska's three-man Republican delegation. The trio is powerful because they can withhold funding for other lawmakers' pet projects: Senator Frank H. Murkowski chairs the Energy & Natural Resources Committee, Senator Ted Stevens heads the Appropriations defense subcommittee, and Representative Don Young chairs the House Resources Committee. Several GOP Hill staffers say privately that some members opposed to drilling voted for it anyway, fearing retribution from these chairmen.

The delegation is backed by powerful economic interests, too. Atlantic Richfield, British Petroleum, and Chevron have major operations in Alaska. The oil industry has given $400,000 to Arctic Power, a prodevelopment coalition of 14,000 Alaska businesses, unions, and citizens. The state government has kicked in $1 million. To counter the Gwich'in, drilling proponents are working with the Inupiat, who would profit from rights on some coastal plain land.

Alaska has a lot at stake. New oil revenues would help fill a state budget deficit caused by declining crude prices. Roger C. Herrera, Arctic Power's Washington coordinator, claims the measure also would create at least 250,000 jobs in Alaska and the lower 48. His group has flown in more than 100 lawmakers, spouses, and staffers to demonstrate that Prudhoe Bay pipelines haven't hurt caribou and brown bear. Now the fight returns to Washington, where the political heat is enough to melt Alaska's tundra.

By Susan B. Garland in Washington

REVENGE OF THE SUPPLY SIDERS

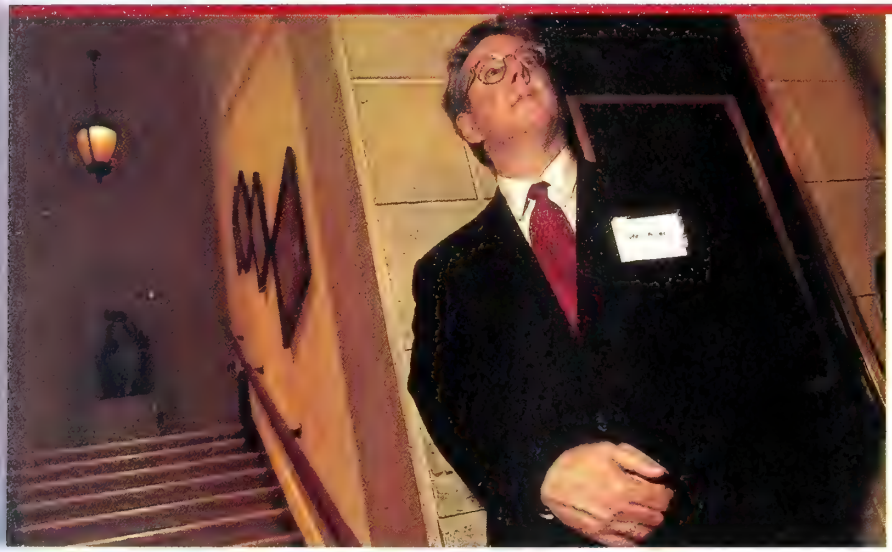
Their theories once again dominate election-year economics

In 1980, they were the young politicians, writers, and economists who devised the tax-cut platform that carried Ronald Reagan to Washington. Fifteen years—and $4 trillion in deficits—later, supply siders are making a comeback. Not so young, but with their rough edges intact, the apostles of economic optimism are lining up to write the script for the second phase of the Republican Revolution: Replace dour budget-cutting with an upbeat message of tax reform.

Proof that supply-side optimism still sells is the startling rise of Malcolm S. "Steve" Forbes Jr. to second place among GOP Presidential candidates in New Hampshire and Iowa polls. The millionaire magazine publisher has built his self-financed campaign largely around the flat tax—a proposal to scrap the current revenue code and eliminate all deductions to bring the tax rate down to a flat 17%. Forbes doesn't apologize for the fact that his plan would slash taxes for the wealthy, give moderate breaks to others, and force big spending cuts. "We should adjust Washington to the needs of the nation," he insists, "not force the nation to adjust to Washington's appetite."

GOING MAINSTREAM. But supply siders are not betting all their chips on Forbes. Some acolytes are advising GOP front-runner Bob Dole (R-Kan.)—a lifelong advocate of budget austerity who frequently locked horns with Reagan's tax-cut crusaders. Now, the Senate Majority Leader is urging faster economic growth through deregulation and "a fairer, flatter, simpler tax." On Capitol Hill, Republicans who came of age under Reagan—including House Speaker Newt Gingrich (R-Ga.) and Senate Majority Whip Trent Lott (R-Miss.)—are also benefiting from supply-side advice.

Supply siders like to brag that they have become the economic mainstream, replacing Keynesians who emphasize government action to stimulate demand. Indeed, the basic supply-side notion has become commonplace: Economic growth depends on how tax rates, regulations, and inflation affect investment, entrepreneurship, and work effort. "There's no doubt mainstream economic research is more focused on incentives and supply factors," says Harvard University economist N. Gregory Mankiw.



FORBES: *He's spreading the gospel of Jude*

Academics shy away from the supply side's more extreme theories, such as the "Laffer Curve," which claimed that lower tax rates could pay for themselves by igniting explosive growth. Even so, Harvard's Martin S. Feldstein, who was an opponent of the Reagan-era supply siders, recently endorsed what might be called Laffer Lite: He calculated that President Clinton's 1993 tax-rate hikes reaped only two-thirds of the revenues expected because high-income earners reduced their work effort.

Hard-core supply siders seek influence, not approval. These days, supply-side polemicist Jude Wanniski advises Forbes, while former Federal Reserve Governor Wayne D. Angell and venture capitalist Theodore J. Forstmann draft Dole's progrowth speeches. At Congress' Joint Economic Committee, young disciples led by chief economist Brian Wesbury are spinning out supply-side papers.

One change from the 1980s is that today's supply siders are more intent on cutting the size of government. But the messy business of slashing spending doesn't mesh well with supply-side optimism. So the fraternity is clustering around tax reform, packing the staff of a commission chaired by supply-side icon Jack F. Kemp.

LESS THAN PURE. The Kemp panel, set up by Dole and Gingrich to draft a GOP tax-reform position, is expected to tilt strongly toward some version of the flat tax in January. It probably won't be a pure, no-deduction system: "Bob Dole doesn't want to make elimination of the mortgage-interest deduction the centerpiece of his campaign," quips a Kemp adviser. But it is likely to go a long way toward exempting investment income from taxation—a key supply-sider goal.

Such sweeping reform isn't likely to come easily. Democrats will attack it as trickle-down déjà vu—huge tax breaks for investors in the hope that some crumbs will fall to workers. Supply siders will predict a tide of economic growth to lift all Americans. Tax reform "would set off a boom by letting people keep more of what they earn and by lowering barriers to risk-taking," candidate Forbes predicts. Sound familiar? That's just one more sign that the supply siders are back in full force.

By Mike McNamee in Washington

SUPPLY SIDE, '90s-STYLE

- Cut the tax burden on the economy by moving to a flat tax, with a rate of 20% or less and few deductions
- Spur investment by reducing the tax on capital gains and by adjusting capital gains for inflation
- Boost economic growth by shrinking government
- Follow a "sound money" policy—perhaps, as Steve Forbes has proposed, by linking the dollar to gold
- Keep the currency strong, instead of devaluing to boost exports

PEOPLE

BARRY'S BACK IN TOWN

But can Diller turn ragtag properties into a media powerhouse?

John C. Malone's investment philosophy has always been simple: Find someone with qualities to admire, provide financing, then stand out of the way. So it's no surprise that the biggest backer these days of former Fox Inc. Chairman Barry Diller is the Tele-Communications Inc. chief executive.

Malone gladly stood aside as Diller, in a flurry of dealmaking, announced on Nov. 27 that he was taking control of struggling television retailer Home Shopping Network and failed movie studio Savoy Pictures Entertainment. Diller's name still has allure on Wall Street, which bid up his Silver King Communications Inc. stock $2, to $37, on the announcement—enough to give Denver-based TCI a one-day, $60 million paper profit for transferring its 41% stake of HSN to Silver King.

To Malone, a bigger payday may come later if Diller can turn Silver King's collection of 16 ragtag TV stations into the backbone of a network. As part of Silver King's 1992 spin-off from HSN, TCI still holds options for 2 million shares with an exercise price of $1.50 apiece. At today's Silver King price, they're worth about $70 million. By 1999, when they expire, they could be worth much, much more.

STATION BREAK. That's how long Diller says it will take him to convert Silver King's properties, mostly hard-to-receive UHF TV stations, into powerhouses with local news and talk shows to lure in big audiences. For now, he's pooh-poohing any notion that he will seek to buy or create his own network—while assuring everyone it won't take all that long to do. "All this nonsense about networking . . . I won't go near a network for two, probably three years," says Diller.

How will owning Savoy, which produced such movie clunkers as *Last of the Dogmen*, get him there? Savoy has $140 million in cash and securities on its books that Diller says will provide him the cash he will need for the next year to upgrade the stations. He likely will ditch the movie business, but he can build on its smallish TV operation, which has produced such made-for-TV flicks as *The Annette Funicello Story*.

But the real prize is Savoy's quartet of TV stations in such cities as New Orleans and Green Bay, Wis. The stations will have cash flow of just $27 million this year but could rev up next year, when they all will go to Fox. (Two are with NBC now; another is with ABC and the fourth is Fox already.) They'll benefit from Fox's football and baseball contracts after the switch. The stations alone are worth $130 million if Diller were to sell them off, says investment banker Herbert A. Allen Jr., although Diller plans to keep them for now.

STREET SMART: *Diller may be on the road to running a TV network*

HSN will be a tougher nut for Diller to crack. Earlier this year, Malone wanted Diller to take over the stumbling TV retailer, but Diller opted for Silver King. Little wonder. Despite efforts by new management to improve its schlocky merchandise, HSN lost $36 million over the past nine months as sales slid 11%, to $730 million. Diller intends to use the service to produce 30- and 60-second shopping spots to replace traditional commercials. But to boost cash flow, he needs to lure better retailers and upgrade HSN's image.

He did that at QVC, which he successfully revamped before leaving earlier this year. "The good news is, this is a business that is 60% show business," says Ike Lagnado, a principal of New York market researcher Tactical Retail Solutions, "and he can reinvigorate it if anyone can." Malone and company also are hoping that Diller spots deals on the horizon that will further boost the stock. "Deals are born from opportunities," says investment banker Allen, who along with other Savoy shareholders will own 20.8% of Silver King. "Barry is very good at finding those opportunities."

What opportunities? Federal telecommunications legislation likely to be passed soon by Congress would give Diller the chance to expand his station group, figures Mark A. Riely, president of New York-based Media Group Research. That could allow Silver King to merge into a larger station group or to seek an alliance with CBS's new owner, Westinghouse Electric Corp. Or, figures Riely, Diller could link up with a studio such as MCA Inc. that could provide it with programming. The decision, of course, is Diller's. But he'll have a very interested partner back in Denver.

By Ronald Grover in Los Angeles and Gail DeGeorge in Miami

THE SHOW GOES ON

Diller's new media empire

TV STATIONS Revenues $61 million, earnings $3 million.* Diller now has 16 stations, some in Los Angeles, New York, and Chicago. The problem: Many are hard-to-receive UHF stations.

HOME SHOPPING Revenues $1 billion, loss $50 million.* Diller is buying control of Home Shopping Network. The problem: The shopping service has been plagued by heavy returns of shoddy merchandise.

PROGRAMMING Revenues $10 million, earnings unknown.* Diller will own Savoy's TV production unit plus the remnants of its failed movie studio. The problem: Savoy is a weak player in a crowded field.

*Estimated 1995 results

DATA COMPANY REPORTS, BUSINESS WEEK ESTIMATES

STORM N THE RAIN FOREST

ayoff charges imperil a big Raytheon contract in the Amazon

t was the biggest defense conversion project in history: $1.4 billion envi- nmental surveil- ıce system for azil's Amazon rain rest. Commerce cretary Ronald H. own lobbied hard r the deal, and in ay, the Clinton Ad- inistration hailed aytheon Co.'s win- ng bid as the fruit effective govern- ent advocacy.

That was before e wiretap, the al- ged influence ped- ing, the suspected dustrial interloping. ow, Raytheon's big ntract is on the pes. On Nov. 10, razilian police disclosed allegations, ased on a secret recording of a top residential aide's phone conversation, at an independent Raytheon contractor ay have paid off a Brazilian senator ho opposed the contract. Three top vernment officials have since resigned. razil's senate has launched a probe.

President Fernando Henrique Car- so has publicly renewed his support r Raytheon. But the contract expired Nov. 23 when the senate, which had al approval, failed to vote on financing. hile Cardoso has extended the con- act for an undetermined period, many ficials expect that the President will forced to put it up for bid again.

CCUPS? It would be a costly loss for aytheon. The surveillance contract is xpected to create 1,100 U. S. jobs and bring Raytheon an esti- ated $150 million in revenue nnually for at least the next years, analysts say. For the linton Administration, mean- hile, the episode represents nother embarrassing exam- le of high-profile advocacy at fizzled. Already, several ecent foreign contracts that eemed certain to go to U. S. ompanies after intense lob- ying have hit serious snags. ost recently, a $3 billion power plant project in India, awarded to a consortium headed by Enron Corp., was cancelled. It has since been revived but still faces stiff opposition.

One aerospace executive says the Administration may have erred by assuming too quickly that it had done its work in Brazil. "It shows there are limits to the political quick fix," says the executive. "There's a tendency to take the kudos and go on to the next issue." Administration officials say the setbacks are hiccups in complicated deals. Says one official: "These are new countries entering the global market for first time, exploring new kinds of deals with unfamiliar partners and financing techniques."

The prevailing view in Brazil is that the Administration and Raytheon were caught amid government rivalries. "This is looking like an overzealous government official trying to bring down another and impress the President," says a Brazil-based foreign observer. Francisco Graziano, a Presidential confidante and chief of Brazil's agricultural reform agency, resigned on Nov. 27 amid suspicion he ordered the police wiretap at the center of the scandal.

A transcript of the wiretap, published by a Brazilian magazine, certainly reveals less than outright evidence of bribery. On the tape, the President's chief of protocol, Júlio César Gomes dos Santos, asks a Raytheon sales representative whether he had "paid" a senator from the Amazon area opposed to the contract.

QUICK KICK? Brown lobbied hard for the $1.4 billion project, but the Clintonites may have assumed too soon that their work was done in Brazil

The Raytheon representative, José Afonso Assumpção, owner of Líder Táxi Aéreo, a major air-taxi company in Brazil, replied only that the senator was "getting in the way. Making difficulties."

Despite the lack of any proof against him, Santos resigned. So did an Air Force minister who, the transcripts revealed, had spent three nights at Assumpção's home. All those involved insist no bribe was paid. Assumpção told Brazilian journalists he thinks he was set up by enemies of Santos.

"STIRRING THE POT." One senior Administration official suspects another force behind the wiretap: the French. To win the contract, Raytheon beat out Thomson-CSF Inc., 40% owned by the French government. According to a report earlier this year in *The New York Times*, the U. S. in 1994 shared with Brazilian officials evidence gathered by the CIA of large French bribes on Thomson's behalf, evidence that helped the U. S. seal the deal. The Administration official now believes the wiretap was retribution from the French. Ron Brown says Brazilian and unnamed "foreign parties" are spreading accusations in order to delay the contract. "They're stirring the pot," he says. Thomson calls the charges ridiculous.

Clintonites are lobbying quietly once more on Raytheon's behalf, and the defense industry is watching closely. The industry, which has had trouble selling to Latin America, has a lot at stake—though maybe not as much as Raytheon and the Administration itself.

By Geoffrey Smith in Boston and Amy Borrus in Washington, with Ian Katz in São Paulo

RAYTHEON'S BRAZILIAN JOURNEY

SPRING, 1994 The Clinton Administration lobbies heavily for Raytheon's bid to supply an environmental surveillance system to Brazil

AUGUST, 1994 Raytheon wins the award

NOV. 10, 1995 Police reveal allegations that a Raytheon contractor may have paid off a Brazilian senator

NOV. 23 Raytheon's contract is allowed to expire. A Presidential extension keeps it barely alive

EXECUTIVE SUITE

THIS PUBLIC COMPANY OF OURS

Have the Gottwalds really loosened their grip on Ethyl?

There are investors who consider the board of directors at Ethyl Corp. in Richmond, Va., the most inbred in America. Bruce C. Gottwald is the chairman and CEO. His brother, Floyd Jr., his sons Bruce Jr. and Tom, and his nephew Bill all sit on the 14-member board, as well. All Ethyl directors, except Tom Gottwald, simultaneously serve on the boards of as many as three other Gottwald-controlled public companies, making them eligible for multiple director fees.

On Nov. 28, after the New York City employees' and the California teachers' pension funds intensified campaigns to force reforms at Ethyl, the Gottwalds bowed to the pressure. Ethyl said that next March it will halve its board, keeping only two Gottwalds and one other employee. Also, three of its four outside directors will resign from their seats on boards of other Gottwald-controlled companies.

CHAIRMAN GOTTWALD Since 1989, Ethyl has spun off three public companies–all run by family members. The board has never conducted a formal executive search for any of these positions

Still, Ethyl Chief Financial Officer Charles B. Walker will continue to act as a paid executive and director of both Ethyl and Albemarle Corp., which is run by Floyd D. Gottwald Jr. The close ties are troubling to some outsiders, because Ethyl and Albemarle will soon be direct competitors, each selling a promising new manganese-based fuel additive, MMT, that recently cleared a major legal roadblock.

Ethyl cited the potential MMT conflict as the reason for the reforms, but to some investors the fact that Walker will serve as both companies' CFO until late 1996 or '97 is a problem. The reforms are "a sham," says Salomon Brothers analyst Michael M. Sargent. "Only the most naive observer would believe [the changes will bring] an independent board."

For many investors, reform is a key issue. Critics contend Ethyl's weak board is one reason its shares fell 16% in the past five years, while its chemical-industry peers climbed 102%. Investors have, however, received shares of the three companies as they were spun off from Ethyl.

Ethyl directors "have had a multiplicity of roles, which does not give comfort that the [outside] shareholder is uppermost in their minds," says Jon Lukomnik, who oversees the New York City Employees' Retirement System, which owns 275,000 shares. Even with the changes, Lukomnik says he has some "remaining concerns." Bruce Gottwald acknowledges that the board ha never vetoed anything the Gottwalc have proposed, saying, "[We're not] bunch of monkeys. We're not going t present something to the board that not good sense."

Despite the reforms, the Gottwald who own 18% of Ethyl's stock, will co tinue to hold top jobs at multiple comp nies. Ethyl's chief product has long bee an antiknock additive for leaded gas line. As the market for the produc shrank, Ethyl diversified into new in dustries from coal to pharmaceuticals t insurance. By 1989, it began closing dow or spinning off those noncore businesse In recent years, Ethyl has spun off thre divisions to form new public companie At each, a Gottwald emerged as CEO– without a formal executive search.

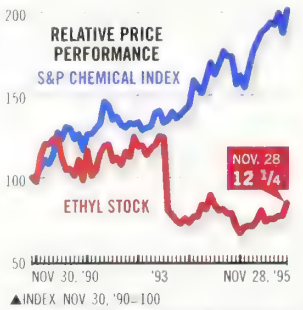
SPIN-OFF SPREE. First, Ethyl spun o its Tredegar building-products subsidiar in 1989 and installed 35-year-old John I Gottwald, Bruce Gottwald's nephew, a CEO. Tredegar's stock has since climbe 111%, to 31¾. In 1992, Ethyl spun o First Colony Corp., an insurance comp ny, and 35-year-old Bruce C. Gottwal Jr., who had no prior industry exper ence, was named CEO. The stock ha since fallen 13.3%, to 26¼. In 1994, Eth yl spun off Albemarle as a growth spe cialty chemicals company. Floyd Gott wald, Bruce's older brother and th onetime chairman of Ethyl, was mad Albemarle's chairman and CEO. Albe marle's stock has climbed 31%, to 19.

Spinning off the companies dramatical ly increased costs. Excluding its insur ance operations, the companies' annu reports show that Ethyl in 1988 had ger eral administrative expenses of $181. million and total sales of $2 billion. Las year, Ethyl, Tredegar, and Albemarl had combined administrative expense of $301.4 million, up 68%, while combine revenues rose only 29%, to $2.6 billion.

Despite the shakeup, Bruce Gottwal 62, says he doesn't see "any problen with the board per se as it is now. He gripe that the corporate gov ernance concerns force him to make unneces sary changes: "Corpo rate governance issue have evolved [t where] people se shadows in the fores whether the sun' shining or not." M Gottwald, the sun i shining.

By Elizabeth Lesl in Richmond, Va.

ETHYL SPUTTERS



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PEOPLE

THE LITTLE SCION THAT COULD

Lester Knight will run Baxter's $5.7 billion spin-off

When Lester B. Knight became president of health-care giant Baxter International Inc.'s intravenous-systems division in 1989, many old hands weren't pleased. Knight was just 31—a tad wet behind the ears, thought some, to run a $750 million business.

Knight's family ties didn't dampen the grumbling, either. His father, Charles F. Knight, is chairman of Emerson Electric Co. and a former Baxter board member. His grandfather and namesake was a prominent architectural and engineering consultant. "People said that if Lester hadn't been Chuck's son, he wouldn't have ascended into that job," says one former employee.

On Nov. 28, Knight won a bigger promotion. Now 37, he has been named chief executive of the $5.7 billion hospital-supply company that Baxter, based in Deerfield, Ill., will spin off next year. This time, though, few at Baxter are whispering about the boss's qualifications.

For the past three years, Knight has been resuscitating Baxter's faltering U. S. hospital-supply operation, the slow-growing, low-margin stepchild of a 1985 $3.8 billion merger with American Hospital Supply. "He has done a very good job turning around the business—everything from cutting costs to improving service," says Sanford C. Bernstein & Co. analyst Kenneth S. Abramowitz.

KNIGHT: *Nobody is grumbling about his connections now*

SQUEEZED MARGINS. This is no glamour business: Knight peddles bedpans and surgical gloves—the sort of commodity products that managed care is squeezing fiercely. Still, the unit's 1994 pretax profits were up 12%, to $474 million on sales growth of just 3%. How? Knight, an industrial engineer and a Cornell University MBA, launched a new cost-management and risk-sharing program for hospitals. Essentially a consulting service, the program helped hospital customers reduce purchasing costs by 20%.

Knight's challenge now is to build the consulting operation into a big profit center, even as margins on the products it delivers tighten still more. The young executive thinks independence from Baxter will help. "We've been taking cash out of these businesses and putting them into medical technologies," Knight says. "Now, we can make the investment bring in more accounts and expand service." On his own now, the kid could truly prove his mettle.

By Ron Stodghill II in Chicago

EXECUTIVE SUITE

ADVANTAGE, KERKORIAN

He's forcing changes in who runs Chrysler and how

Barely two days after his summit meeting with billionaire investor Kirk Kerkorian, Chrysler Chairman Robert J. Eaton was sounding more like a mediator than a warrior. After steadfastly opposing a board seat for Kerkorian aide Jerome B. York, Eaton now says that a seat for York is at least a possibility. "I wouldn't rule out anything," Eaton says.

The comment says a lot about the influence Kerkorian has regained over Chrysler. Since his $20.5 billion takeover bid fell flat last spring, Kerkorian has aimed a harsh spotlight on how Chrysler is managed and its money is spent. "Kerkorian has been shrewd, he's been persistent, and he's pushing Chrysler to consider a compromise," says University of Chicago business professor Steven Kaplan. Neither side suggests a board seat deal is near. But, comments York: "It's in everybody's interest to reach a negotiated settlement."

Kerkorian is gaining on other fronts. On Nov. 22, under pressure from Kerkorian, former Kmart Corp. Chairman Joseph E. Antonini resigned from Chrysler's board. A proxy fight is all but certain next spring if York doesn't get his seat peacefully. Another indication that Kerkorian has the undivided attention of Chrysler's directors: Robert J. Lanigan, retired chairman of Owens-Illinois Inc., who wields influence on key board committees, attended the Kerkorian-Eaton summit on Nov. 20—a development a source close to Kerkorian calls "very positive."

Lanigan and other Chrysler outside directors also are in the midst of a corporate governance review—again, prompted by Kerkorian. Items likely to be on the agenda: the board seat and altered rules to allow Kerkorian to buy more stock. "The study isn't done, and I'm not going to prejudge" what will be decided, Eaton says. He concedes that "senior management is obviously involved" in the study, raising questions in Kerkorian's camp about its objectivity. But Eaton, who called the shots that sank Kerkorian's takeover bid, says he will make no recommendations himself.

"AN EDUCATION." Another plus for Kerkorian: Directors now will be included, Chrysler says, in meetings with other major shareholders, including giant Fidelity Investments, which also owns 14% of Chrysler and could be key in a proxy fight. "That board is going to get an education," says Ted Shasta of the investment firm Loomis, Sayles & Co., also a big shareholder.

SOFTENING? Eaton stymied Kerkorian's takeover. Now he may accept York as a director

York will be dogging Eaton every step of the way. The onetime Chrysler chief financial officer plans to meet with the auto maker's top 40 shareholders over the next two months to discuss Kerkorian's agenda. Now, if he can just get Eaton to accept York as a director, Kerkorian may really be able to share some of the driving at Chrysler.

By Bill Vlasic in Detroit

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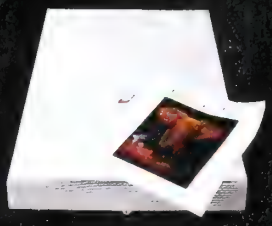

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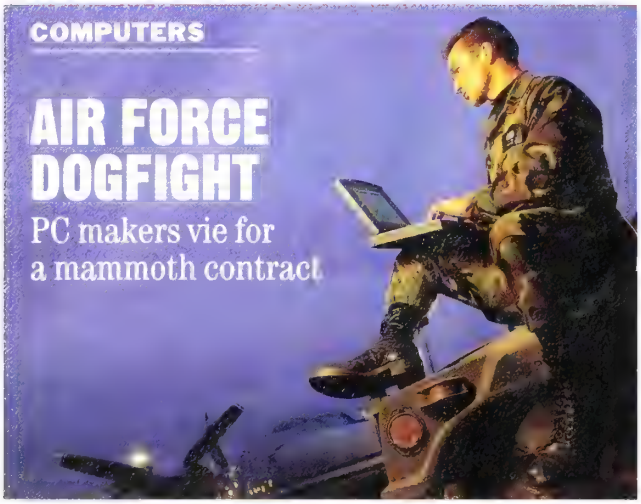
PC makers vie for a mammoth contract



LAPTOP GUN: *A deal worth $900 million*

This is the big one—the single contract that can turn a computer maker's fortunes around overnight. It's worth some $900 million right off the bat, and it influences the selections of computer buyers throughout the federal government.

Not surprisingly, the U.S. Air Force's latest personal-computer contract, known as Desktop V, has drawn an impressive crowd of contenders. Among the big-name manufacturers involved in the bidding: Compaq, Dell, Digital Equipment, Hewlett-Packard, IBM, and AT&T.

The winners—two are expected—could be named as early as mid-December. They will supply the Air Force with 360,000 machines and perhaps more. For the first time, the contract will include laptops and network-powering servers, which carry far richer profit margins than plain-vanilla desktop machines.

"VERY INFLUENTIAL." More than that, though, the contract is prized for its outsize clout on the U.S. government's $9.1 billion computer budget. The Air Force's reputation for technical excellence makes Desktop V "very influential," says Theresa Garza, a vice-president at Dell Computer Corp., whose products are included in several bids.

It's a critical test for Zenith Data Systems, the $1.3 billion PC division France's Groupe Bull. Zenith Data h won or split three of the first four A Force PC contracts, and governme contracts account for 20% of its tot revenues. Since it shared the 19 Desktop IV contract, though, the co pany has landed just one major feder win. Meanwhile, Dallas-based Electro ic Data Systems Corp. (EDS) h snatched four major government contracts this year alone. While Zeni has a reputation for top-notch servic EDS has thrived by submitting two bi for each contract, one with brande equipment and a second with chea no-name machines.

Whichever company wins Deskt V will get a revenue boost at a tim when consumer PC sales growth is e pected to slow to 15% in 1996 fro 25% this year, according to IDC/Lir Resources Inc. For the next sever weeks, then, the PC industry will hav one eye trained on crucial Christm sales—and the other on the Air Forc Secretary's office in Washington. Whic is more important? Christmas come but once a year. The government ju keeps on buying.

By Gary McWilliams in Housto

OFFERINGS

THE WRINKLE IN REVLON'S IPO

Its market value may be much lower than Perelman expects

It's a textbook turnaround case. Since 1992, Revlon Inc.'s share of mass-market cosmetics has soared from 14.7% to 19.4%. Revenues jumped 11% in the first nine months of 1995. Now, Ronald O. Perelman wants his payoff: Early in 1996, he plans to raise $150 million by spinning off up to 20% of the crown jewel in his MacAndrews & Forbes empire.

The question: Just how much will Wall Street pay? Revlon's prospectus, filed on Nov. 17, doesn't indicate a possible share price or implied market value, and the company won't comment. But sources close to Revlon previously have said it is worth $4.7 billion—23 times expected 1995 cash flow and three times sales.

HARD-PRESSED. That will be a stretch. Analysts say Revlon likely is worth $3 billion—or much less. They cite the Nov. 17 initial public offering of cosmetics rival Estée Lauder Cos. Lauder sold off a 13% stake for $398 million; its shares, initially priced at $26, currently trade at $35, putting its worth at $4.3 billion.

That market value is 14 times Lauder's fiscal 1995 cash flow and 1.5 times sales. If Revlon could match that ratio, the market would value it at $2.9 billion. NationsBank Corp. analyst Paul Shaum says the companies are comparable. "What has happened is that brands with international recognition are very valuable, and Revlon, like Lauder, has great brand recognition," he says.

Some investment bankers, though, think Revlon will be hard-pressed to meet Lauder's standard. While its value-oriented marketing has proven highly effective, the company carries $1.6 billion in public and bank debt on its book with another $1.1 billion at Revlo Worldwide, a holding company for Rev lon Inc. Service on the Revlon Inc. deb turned an $86 million operating prof into a $45 million net loss for the nin months ended Sept. 30. Setting asid holding-company debt, Revlon's valu would be a mere $1.3 billion once th $1.6 billion debt is subtracted. Laude by contrast, has just $65 million in deb

Perelman ultimately may be relieve to get whatever he can. In 1992, Revlo failed to pull off an IPO when its lacklus er earnings met a sluggish stock marke Now, the need for fresh capital is mor urgent: In early 1998, Perelman will hav to refinance Revlon Worldwide's deb By selling less than 20 of the company, moreove he can raise cash whil continuing to consolidat Revlon with his other hold ings. The strategy can pro duce considerable tax sav ings by offsetting profits a one company against losse at another.

But is Revlon wort $4.7 billion? A price tha high is vintage Perelmar He won't likely get it.

By Leah Nathans Spir in New York

KISS OF DEBT? *$1.1 billion is coming due in '98*

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EDITED BY KEITH H. HAMMONDS

TIME IS ON FEDEX' SIDE

ROUND ONE TO FEDERAL express. A few days into its contract battle with the Air Line Pilots Assn., FedEx still was delivering more than 95% of its packages on time—even as some pilots refused overtime and extra shifts. A dozen major catalog merchants said they were satisfied with FedEx' performance. But the timeliness has been costly. To keep operations moving, FedEx cut back on flights to Asia and South America, leased seven cargo planes and their crews to stash as extras at key hubs, and dispatched replacement pilots to hubs where it expected union interference. Aware that the second week of December is typically the year's busiest, meanwhile, ALPA leaders were mapping plans to stage limited strikes on pivotal days. "This is going to have a cumulative effect," says Will Johnson, a union spokesman.

AETNA DUMPS A TROUBLED UNIT

AETNA FINALLY SOLD ITS much-shopped property-and-casualty unit. The buyer: Travelers, which will pay $4 billion for a business that, before this year, had been wracked by huge environmental claims and underperforming real estate loans. Post-deal, Travelers will be a powerful force in homeowner, auto, and commercial insurance. And Aetna, which has signaled its desire to build a large presence in managed care, will get new capital from the deal. It probably will use the proceeds to shop for a health maintenance organization, say people close to the company.

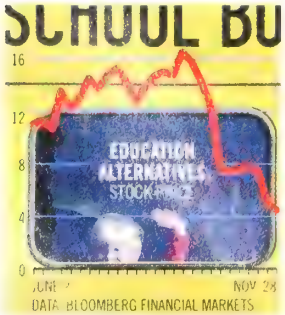
A BANKER THE STREET TRUSTS

WALL STREET, WHICH LOVED Frank Newman when he was CFO of Bank of America, seems eager to rekindle the affair. Analysts attending a Nov. 28 reception with the CEO-elect of troubled Bankers Trust left impressed. "Newman inspires confidence," said Lehman Brothers analyst James Rosenberg. And Bankers' stock was up 2¾, to 65¼, the following day, in part because Newman's comments reassured some analysts fearful of a dividend cut. The new guy has some problems, though: Brian Walsh, BT's co-head of investment banking, announced he will leave by yearend, and sources say other high-level defections are likely.

CLOSING BELL

SCHOOL DAZE

The ignominy of it: The schoolmaster is being expelled. Education Alternatives has pioneered for-profit management in public schools. But on Nov. 30, officials in Baltimore, where EA has been the target of performance and financial questions, were expected to cancel the company's $44 million contract. The company is also tussling with officials in Hartford. EA says the city owes it $9 million; the balance due contributed to a fiscal first-quarter loss of $2.5 million.



HEADLINER: ISRAEL COHEN

A GIANT FOOD FIGHT

For three decades, Israel Cohen dominated Giant Food, the $3.7 billion supermarket chain his father founded. Cohen's iron will and merchandising mastery helped Giant win 45% of the Washington market.

Cohen's death on Nov. 22, at 83, may have an equally profound effect. Indeed, the chain suddenly is the subject of intense takeover speculation. British supermarket leader J. Sainsbury already owns 16.7% of Giant, including 50% of the company's voting shares. The other half of the voting shares are part of Cohen's estate, which his will dictates are to be voted by his sister and four longtime Giant managers.

Sainsbury, which already owns Shaw's Supermarkets of East Bridgewater, Mass., has made no secret of its interest in building a national U. S. supermarket operation. A deal may not be imminent: Merrill Lynch analyst Gary Vineberg warns it could take time for the two sides to come to an agreement on price. But Vineberg figures a deal will eventually be done, and could lift the company's public, nonvoting shares by 20%, to about $40.

By Amy Barrett

DELTA SWOOPS IN FOR A LANDING

VALUJET THOUGHT IT HAD A deal to lease 10 landing slots from TWA at New York's LaGuardia Airport for $480,000 a year. But on Nov. 2, Delta swooped in and outbid the smaller carrier. ValuJet has sued on antitrust grounds, saying the bigger airlines wanted to keep it from challenging Delta's New York-Atlanta dominance and its lucrative Boston-New York shuttle routes. TWA and Delta deny any shenanigans. But in depositions, they admitted TWA never gave ValuJet a shot at a counteroffer, and Delta bid within hours when it learned ValuJet had a deal.

A LITTLE SHORT AT PACKARD BELL

COMPUTER MAKER PACKARD Bell Electronics has a cash-flow problem. It had to sell a 20% stake in July to Japan's NEC. And in a Securities & Exchange Commission filing made public on Nov. 27, chip maker Intel said it had converted to a loan part of the accounts receivable from a big customer—widely suspected to be Packard Bell. Still, Packard says its revenues will rise more than 50% over last year's $2.9 billion and some analysts say it will gain market share.

ET CETERA . . .

- Wells Fargo launched its hostile tender offer for shares of First Interstate.
- Toyota will build a new $ billion pickup-truck factory near Evansville, Ind.
- IBM will buy back $2.5 billion of stock. That's a total of $7.5 billion since Jan. 1.
- The AARP will end an exclusive health-care contract with Prudential Insurance.

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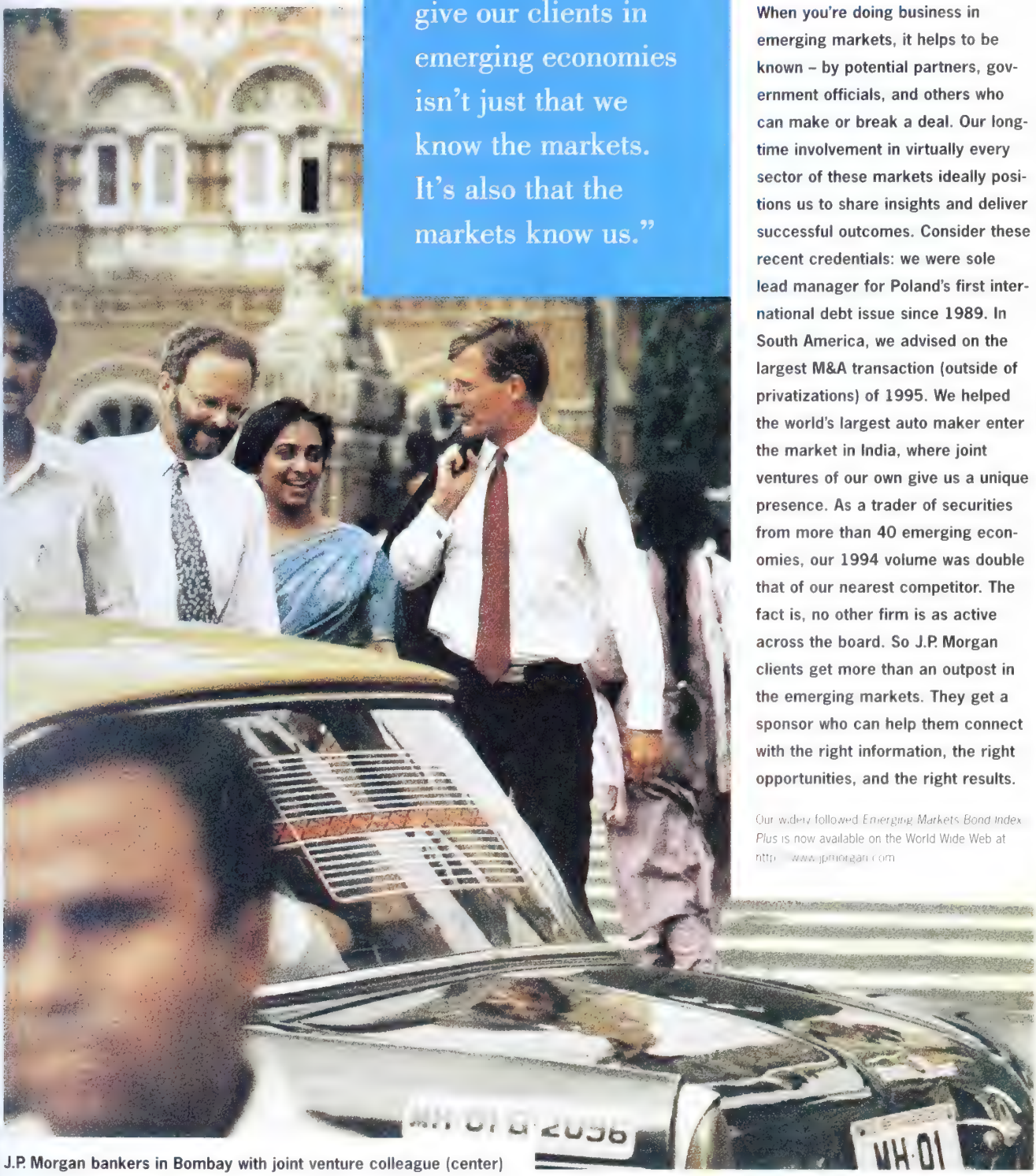

J.P. Morgan bankers in Bombay with joint venture colleague (center)

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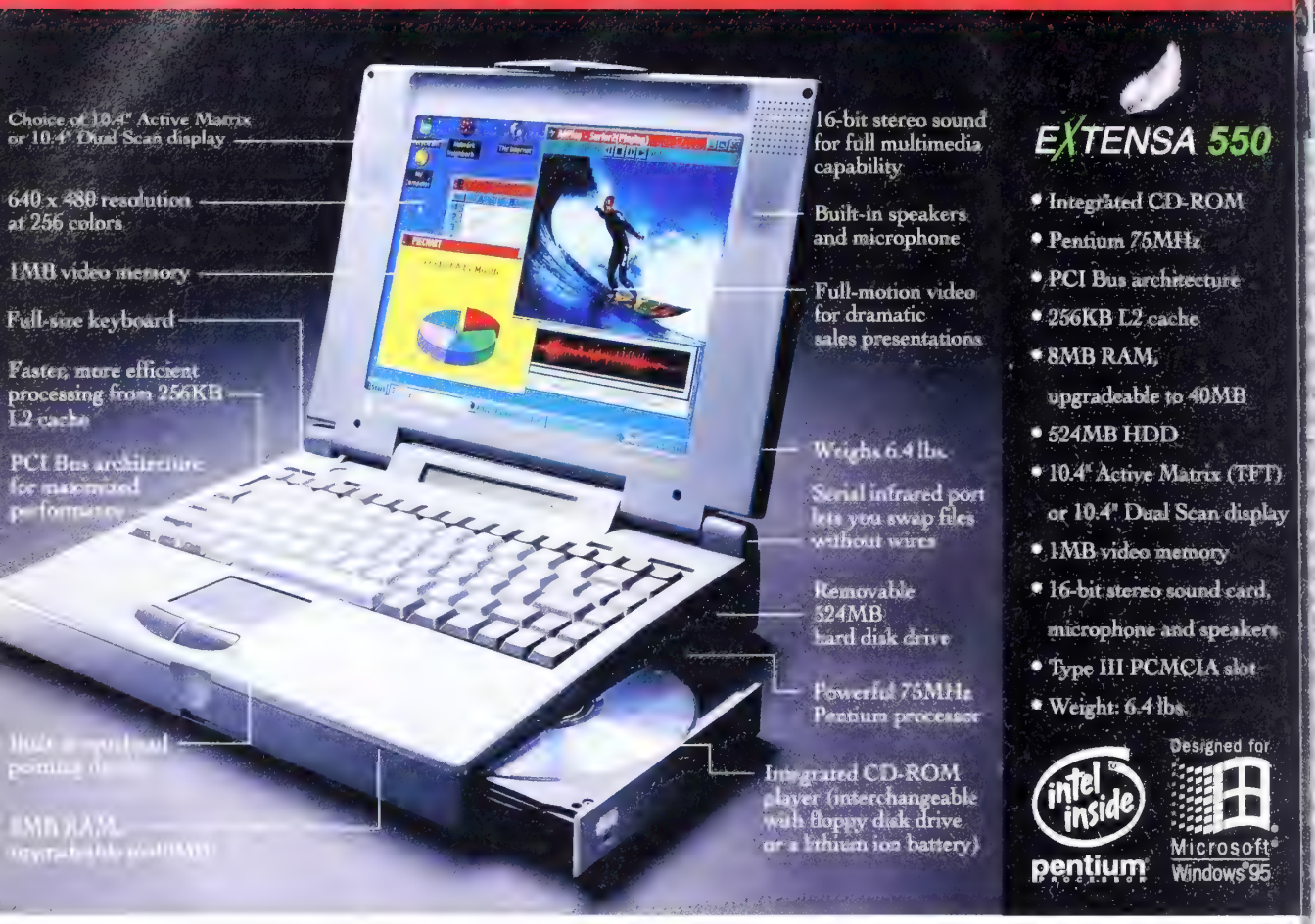

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ITED BY OWEN ULLMANN

OULD THE 'GANG OF SEVEN' TEAL THE BALL FROM CLINTON?

ll year long, as President Clinton veered toward the political center, his advisers sweated bullets about a challenge from restive Democrats on the left. So imagine eir surprise at the news that retiring Senator Bill Bradley -N. J.), former Democratic Presidential aspirant Paul Tsons, and a clutch of other moderates were plotting a guerril- assault from the center—just in time for 1996.

The five Democrats and two independents are pushing agenda that blends fiscal conservatism with social liberal- n. It includes "honest" deficit reduction that raps the Republican Party's tax cuts but quires means testing and higher investment turns from trust funds for Medicare and cial Security. Also on the list: political re- rm, environmental protection, and free trade. Neither political party is dealing responsibly ith the issues," gripes one of the rebels, for- er Minnesota Representative Timothy J. enny, a Democrat. "We need to bring more finition to what is meant by a middle-of- e-road third way."

But to keep from being little more than an- her elitist think tank, the "Gang of Seven" is aving open the possibility that one of them ill run for President as an independent. "It's preliminary enterprise," concedes former olorado Senator Gary W. Hart.

A viable centrist candidate, especially a veteran Democrat, uld prove devastating to Clinton. He's counting on attract- g enough moderate voters to turn back a conservative Re- iblican challenger. But despite their intellectual firepower, e plotters face daunting obstacles. For starters, the group woefully strapped for cash, charisma, and citizens to over- me the duopoly held by Democrats and the GOP. "These are enerals without any troops," says one associate.

What's more, the generals have plenty of battle scars. ormer Connecticut Governor Lowell P. Weicker Jr., a Republican turned independent, is a tart-tongued maverick with a long list of political enemies. Bradley, a somber policy wonk, is stepping down rather than face another stiff Senate race—and he shows no eagerness to challenge Clinton. Tsongas is a cancer survivor whose issues-oriented campaign fizzled with voters in '92. Deep-thinker Hart is still dogged by the sexcapade that sank his 1988 Presidential run.

BRADLEY: *A centrist assault on the Democratic Party*

ISSUE ENFORCERS. Other members of the centrist cabal—Penny, ex-Colorado Governor Richard D. Lamm, and Maine's independent governor, Angus S. King Jr.—lack national identity. "This is a point in history where a credible third-party candidate—as Colin Powell showed—could get wide support," says a top Democratic strategist. "This group is ill-prepared to capitalize on the opening."

This doesn't mean the effort won't yield results. By pushing a substantive policy agenda, Bradley & Co. could force Clinton and GOP frontrunner Bob Dole to honestly address issues that concern centrist swing voters, such as education, globalism, and campaign reform.

Short term, the biggest winner may be Ross Perot's Reform Party, which has the grass-roots structure, money, and foot soldiers Bradley's band lacks. Russ Verney, executive director of United We Stand America, says the seven reflect "an extraordinarily deep feeling among the American people that our two-party system is a failure." Indeed, a recent *Los Angeles Times* poll found that 43% of voters would consider an independent for President—up from 29% in January.

For now, consider the insurgency a warning shot at the Democratic Establishment, much as Perot aims at Republicans. "If all these things that concern us can get resolved within the two-party system, that's all for the good," says Tsongas. But if Democrats opt for business as usual, the new centrists' ideas could overcome their charisma deficit—and fuel a third force.

By Richard S. Dunham and Lee Walczak

CAPITAL WRAPUP

TREASURY FLATTENS ARMEY

▶ Flat-tax fans are cheering new Treasury Dept. estimates showing that House Majority Leader Richard K. Armey's no-deduction reform plan could match current federal revenues with a 21% rate. That's down from Treasury's previous revenue-neutral rate of 23% and closer to Armey's proposal of a 17% rate. But Treasury aides say their estimate changed because of Armey's own revisions, including smaller personal exemptions and elimination of earned-income credits for the working poor. "He's making the system more regressive," says an Administration official.

I FEEL YOUR VALUES

▶ GOP leaders Bob Dole and Newt Gingrich claim to stand for the average American's values. But a Nov. 27 Harris Poll suggests otherwise: 56% of respondents share values "a lot" or "some" with President Clinton. Only 39% say the same about Senate Majority Leader Dole—the same percentage Corporate America gets. House Speaker Gingrich rates a mere 29%.

FRIENDLY TURF FOR MODELL?

▶ Cleveland Browns owner Art Modell is hoping Congress will punt on any attempt to block his NFL team from moving to Baltimore. Senate Republicans, who held a Nov. 29 hearing on the issue, normally oppose free-market intervention. But just in case, Modell has a defensive secondary: money. The Center for Responsive Politics, a campaign-watchdog group, says the Modell family and team employees have given $110,250 to congressional candidates since '79.

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OUTCRY: *Seoul marchers protest th Kwangju killings*

SOUTH KOREA

SHOWDOWN IN KOREA

The scandal sparks a fight to shape the nation's destiny

For weeks, South Koreans have been transfixed by the spectacle of former President Roh Tae Woo being ruined. The former four-star general now spends his time in a grim, 40-square-foot cell as he awaits a Dec. 4 indictment on bribery charges. At the same time, chieftains of Korea's biggest conglomerates have been paraded before prosecutors on suspicion of contributing to Roh's $650 million slush fund.

But charges of mere bribery have now been overshadowed. At 4 p.m. on Nov. 24, stunned Koreans watched televised reports that President Kim Young Sam had ordered the prosecution of Roh and Roh's predecessor, Chun Doo-Hwan, for their alleged involvement in the May, 1980, Kwangju incident. Troops shot and killed at least 200 people and wounded thousands in the incident, which carries the same explosive emotional meaning that Tiananmen Square does for China.

In so doing, Kim has dramatically raised the stakes, transforming the bribery scandal into a battle to shape Korea's destiny. Reopening the Kwangju incident signals his determination to permanently discredit the entire military-backed political Establishmen that persecuted hir then put him in powe by making him th ruling party's 199 presidential candidat

At the same tim prosecutors will in dict—and perhap jail—so many *chaebo* leaders that it coul alter the relationshi between governmen and business. "This going to shape the his tory of Korea," say University of Pennsy vania political scienc professor Lee Chong Sik. "It could be a mo ment for Korea to re orient itself, in term of the relationship between politics an business, and in many ways shape th future of politics."

BIG RISKS. So the pressure will mount o the leaders of Samsung, Hyundai, LG Daewoo, and other top groups to she their autocratic management styles an promote more professional managers The mood inside the *chaebol* is somber a executives worry about possible govern ment proposals to require them to ap point more outside directors to thei boards. Seoul could also deny financing t groups where founding families refus to cede control to professionals.

But there are major risks facing Kim' effort to remake his country's economi and political landscape. One is that h himself could be tainted. Because he wa a candidate of the ruling Democratic Lib eral Party in 1992, many experts believe his candidacy benefited from Roh's slush fund, which he has repeatedly denied.

At least temporarily, Korea's economic momentum also coul suffer as the top 30 *chaebol*, which account for 14% of gross domesti product on a value-added basis grapple with the corruption charg es. Growth of 9.3% already is ex pected to soften to 7% over the next two years. Even though Dae woo has been able to proceed with a $1 billion auto deal in Poland there's little question that *chae bol* leaders are preoccupied. "This is something we didn't need at this critical juncture when we are just launching our globalizatior plan," confides one Samsung exec

ERSTWHILE ALLIES: *President Kim (right) denies he received any campaign money from Roh's slush fund*

Another risk is pure emotionalism. ere is huge bitterness between Kim l his predecessors arising from inci- ıts surrounding the assassination of esident Park Chung-Hee in 1979. Dur- ; the turmoil, Chun—then an army jor general—consolidated power with h's help. Their junta arrested oppo- nts, including Kim. He was under ıse arrest for more than three years ore a hunger strike nearly killed him. Ironically, the ruling party tapped Kim their candidate on the expectation ıt he would go easy on past transgres- ns in exchange for a taste of power. ıy Kim chose this moment to reopen wounds is the subject of intense spec- ıtion. Government sources say he anged his mind after Roh confessed to ıssive corruption on national TV on Oct.

The President's allies argue that when steps down in February, 1998, he ınts to be a *young woong*, or hero, ıo put his stamp on Korean democracy.

IIPPING UP. But opposition parties, par- ularly the National People's Congress l by archrival Kim Dae-Jung, say the esident is as guilty as any other cor- pt politician. In their view, Kim is ıipping up the Kwangju incident to aw attention away from accusations at he received political funds from Roh.

No matter how Machiavellian his enda might be, President Kim has a tter-than-even chance of pulling it off, orea watchers say. Odds are, for ex- nple, that he will be able to purge at ast 50% of the current National As- mbly members who belong to his par- . By bringing in younger faces, he opes to bolster his own party, which ould leave him in a kingmaker role en after he steps down.

Precisely how Kim attempts to re- ıape the *chaebol* will depend in large ırt on how vigorously prosecutors press ıeir cases. On Nov. 26, they indicted hung Tae-Soo, chairman of Hanbo Steel General Construction Group, for al- gedly giving $13 million to Roh. He asn't immediately jailed, and others of ıe 24 *chaebol* chiefs who have been ıterrogated saw that as a sign of le- iency. But then, in a sudden turn on Iov. 29, Chung was detained.

Although prosecutors aren't comment- ıg, it appears they will physically detain nly the tycoons they believe lied during uestioning or who paid particularly ex- rbitant bribes. Government sources say ıey won't take any action that would re- ult in dismantling the *chaebol* because it ould cripple the economy, says Hong ae-Hyung, Deputy Prime Minister for fi- ance and economy: "We want the *chae- ol* to act voluntarily and reduce their ower and position in the economy."

There are clearly some signs of hange. The Koo family, which founded LG Group, has delegated more authority to professional managers. On Nov. 29, the group announced it would no longer give special consideration to vendors and subcontractors operated by relatives of the founding family. "We want the system to be transparent," says Chairman Koo Bon-Moo, son of the founder.

At the end of the day, few experts believe Kim's housecleaning will permanently injure the economy. Far from seeing a country at risk of meltdown, most experts argue that the current upheaval is part of a long-term restructuring that will make Korea more competitive. G. Paul Matthews, president of San Francisco-based Matthews International Capital Management, which holds about $30 million in Korean stocks, argues that greatly diminished dirty-money flows between government and business represent a kind of privatization. "A lot of these privately held *chaebol*, because of their close relationships with government, have been organs of government in some respects," he says. "Now we may have a more level playing field."

That implies a Korea more open to foreigners at the same time that its own companies are stronger internationally. It suggests a further step toward a more robust democracy. The process may appear messy, and there is the risk that investigations could spiral out of control. But by playing such a high-stakes game, Kim is determined to reshape the Korea that enters the 21st century.

By Laxmi Nakarmi in Seoul, with Steven Brull in Tokyo and William J. Holstein in New York

KOREA'S SYSTEM IN TRANSITION

AN ERA CRUMBLES

1979 President Park Chung-Hee, a military dictator, is assassinated. Generals led by Chun Doo-Hwan (right) and Roh Tae Woo take power. Chun, as President, maintains tight government-business linkages.

VIOLENCE IN THE STREETS

MAY, 1980 Military crushes street demonstrations in southwestern city of Kwangju, killing and injuring hundreds, perhaps thousands.

WINDS OF CHANGE

1987 Chun's ruling Democratic Justice Party supports Roh to become President. He wins in a relatively open election.

THE ADVENT OF DEMOCRACY

1992 Renamed Democratic Liberal Party taps longtime opposition leader Kim Young Sam to become its presidential candidate. He is first civilian to win in open vote.

POLITICAL STRAINS

1993 Tensions develop between Kim's reform wing of the ruling party and a wing dominated by former military-backed officials.

ATTACKING THE OLD ORDER

OCTOBER, 1995 Prosecutors believed sympathetic to Kim attack allegedly corrupt practices of Roh and top business leaders. Archenemy Kim Dae-Jung admits accepting tainted funds.

Daewoo's Kim Woo-Choong and Samsung's Lee Kun-Hee

HUMILIATION

NOV. 16, 1995 Roh is arrested and goes to jail for amassing a $650 million slush fund.

OPEN WARFARE

NOV. 24, 1995 Kim orders prosecutions in Kwangju incident, setting stage for a full-scale assault on forces that put him in power.

BUSINESS ON DEFENSIVE

NOV. 26, 1995 Chung Tae-Soo, chairman of Hanbo Group, is indicted on bribery charges.

DATA: BUSINESS WEEK

NICE OFFICE: *Fund manager Kozeny, Arbess, an Dingman in Lyford Cay the Bahamas*

CZECH REPUBLIC

AN ISLAND BREEZE BLOWS IN PRAGUE

Mike Dingman takes on Czech industry–from the Bahamas

Michael D. Dingman sits in his bungalow office in the Bahamas, his bare legs propped on a chair and coconut palms swaying outside his window, when a call comes in from Prague. The lanky 64-year-old picks up the phone, turns to his young partner, who is dressed, like Dingman, in khaki shorts. "Viktor," he asks, "do we have it under control or not?" Red-haired and ruddy from the tropical sun, Viktor Kozeny, 32, nods reassuringly. "My people have the proxies," he answers in a heavy Czech accent.

Kozeny, a controversial, self-exiled Czech money manager, turns out to be right. Four days later, on Nov. 21, Eastern Europe's first corporate proxy fight since the fall of communism ends in victory for this pair of superrich investors. In a bitter battle with a Swedish paper company, Kozeny and Dingman—the former president of AlliedSignal Inc.—have taken control of Sepap, a $300 million paper producer that's one of the privatized gems of Czech industry.

SLASHER? The Dingman-Kozeny victory was a jolting lesson in the ways of Wall Street for East European managers. After winning 57% of the votes, Dingman's lieutenants instantly removed Sepap's top five executives. CEO Tomas Sabatka was clearly shocked. Three days earlier, he had mentioned "stories about Wall Street sharks" but declared that Dingman wasn't one of them.

Whether Dingman qualifies as one depends on whom you talk to. He's a veteran turnaround expert, widely admired by many U.S. managers for his 30 years of transforming corporate losers into winners. Yet some investors criticize his bewildering f nancial maneuvers for e riching insiders more tha stockholders. Now, Easte Europe is in for a binge Dingman-style restructu ing, and some Czechs fe he and Kozeny are out t make a fast koruna and w slash and burn—and dum workers—to do it.

From their island strong hold, the pair say the S pap takeover marks th kickoff of a grand, lon planned strategy. Usin stock purchased by Din man's personal investme vehicle, Stratton Group, an Kozeny's Prague-based f nancial group, Harvar Capital & Consulting, the intend to take control other Czech companies, i ject Western financial an marketing savvy, and merge them into powerful conglomerate.

Already, Dingman and Kozeny ow stakes in 10 Czech companies, from glassmaker to the brewer of Pilsne Urquell beer (table, page 58). Partly b buying shares from Kozeny's 30 mutu funds and partly by open-market pu chases, Stratton will invest $140 millio of Dingman's personal fortune in Czec companies—just for starters, he say He says he expects to add investmen funds from wealthy friends, includin corporate raider Ronald O. Perelman.

Despite the misgivings of som Czechs, many of the country's leader are delighted that cutthroat capitalisn may sharpen the edge of their "velve revolution." Stratton Group "is helpin to create a new dynamism," says Czec Economy Minister Karel Dyba. In th Czech Republic, 1,900 companies ar now owned by throngs of passive in vestors—both funds and individuals— who can't make the hard decisions t boost efficiency. That's one reason Czec unemployment is a mere 3%. Industry i ripe for consolidation, "like America a the turn of the century," says Kozeny who has a bachelor's degree in econom ics from Harvard University.

Amazingly, Dingman never set foo in the Czech Republic until the end o November, when he traveled to Prague to throw a reception for government and business leaders. But he has

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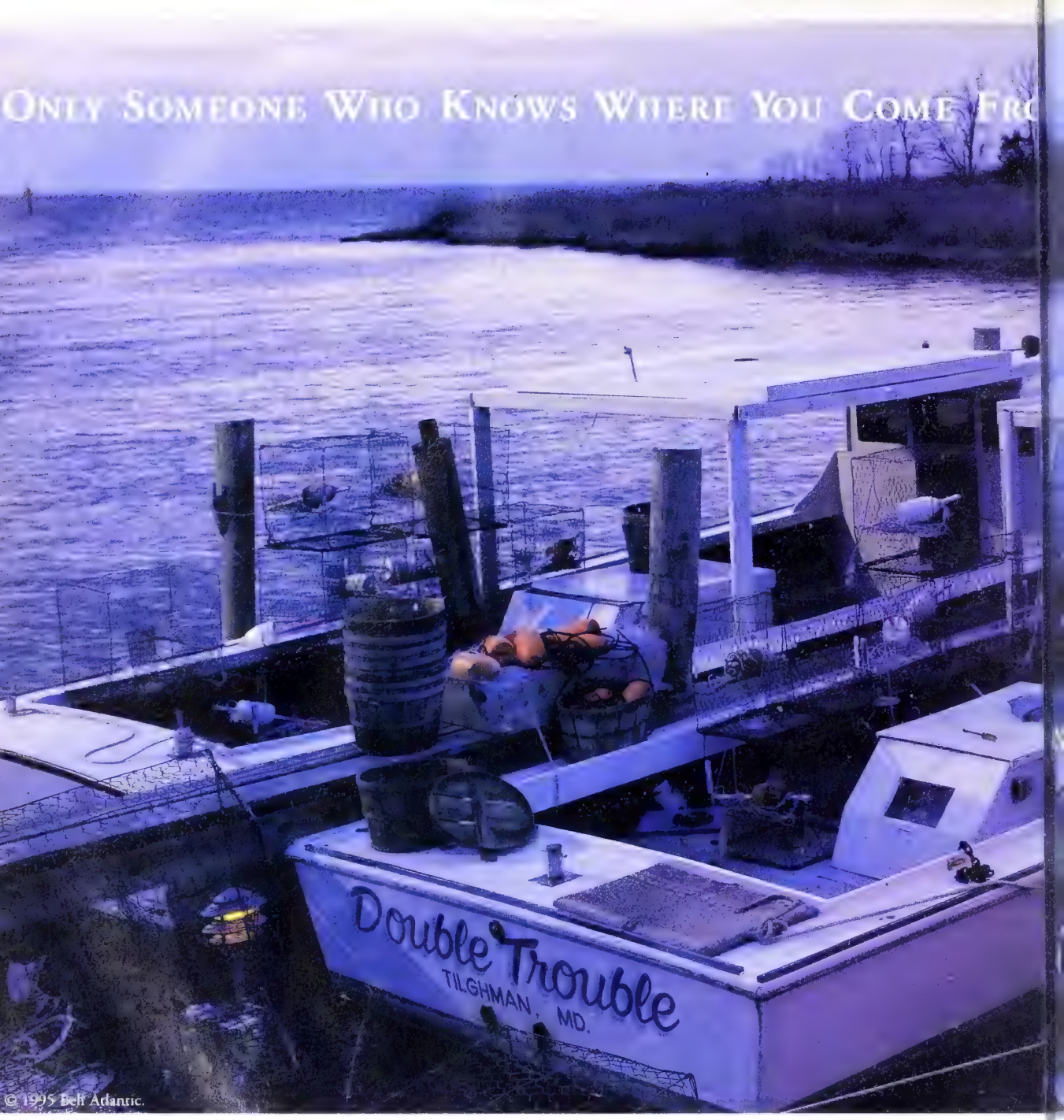
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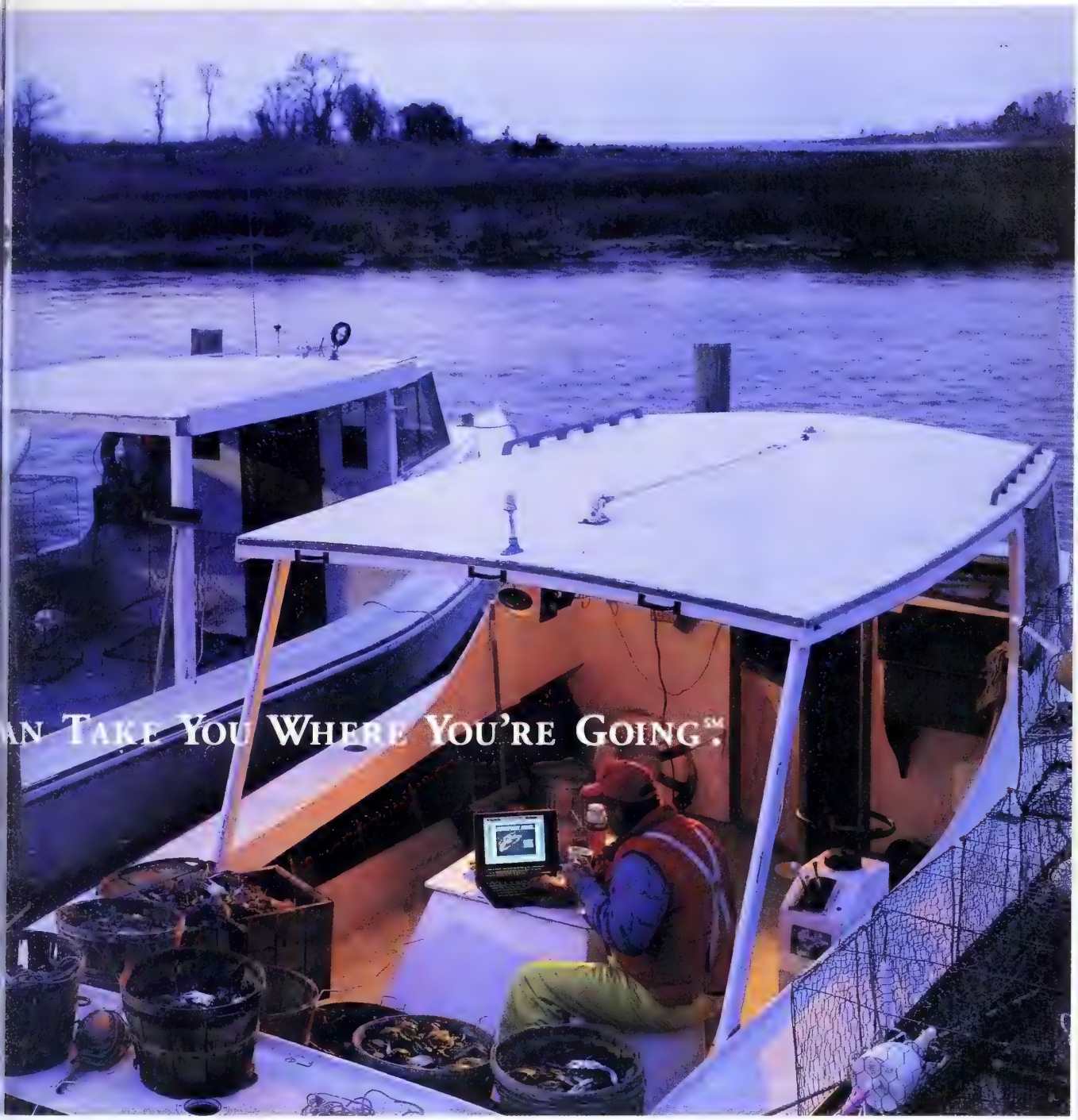

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well-grounded partner in Kozeny, who five years ago was a modest Prague financial consultant, living in a one-bedroom attic flat. Today, he's undoubtedly the richest Czech, worth $200 million by one estimate.

That wealth came from an audacious gamble. In 1991, every Czech had the right to buy a $35 book of privatization vouchers, convertible into company shares of their choice. Kozeny, who had advised the Czech government on privatization, was sure that share prices would soar. So he bought advertisements promising a tenfold return in one year to those who paid him a management fee to invest their vouchers, and 820,000 Czechs did so. Trouble was, Kozeny had no money. Only if the bourse boomed could he pay his $250 million obligation. Luckily for him, prices jumped sixtyfold. His mutual funds now control 15% of the Prague stock market.

State investigators smelled a scam—although there wasn't one—and grilled Kozeny repeatedly. Fed up and risking arrest, he left for the Bahamas because of its "low taxes and good weather," he says. Kozeny has purchased a lavish home in a gated community, with a front lawn that slopes to the sea and a Rolls-Royce in the garage.

MR. FIXIT. Back in Prague, 1,000 employees now work for his mutual funds and insurance business. But Kozeny won't be returning to Prague, even though Czech authorities say that he's free to come back with no fear of prosecution. "This is my home now," he says. His neighbors in Lyford Cay, near Nassau, are the rich and famous: actor Sidney Poitier, mutual-fund manager John M. Templeton—and Mike Dingman. Dingman met Kozeny at a dinner party two years ago and says he became intrigued. "He reminded me of myself when I was his age," says Dingman.

At that age, college dropout Dingman had left his bizarre first job—selling flagpoles—and had risen at a Wall Street investment firm. One client was a near-bankrupt industrial hodgepodge called Equity Corp. Dingman moved in, dumped hopeless units, and transformed it into Wheelabrator-Frye, a successful builder of industrial plants. His success as Mr. Fixit later landed him at Henley Group, a trash bin for 35 unwanted AlliedSignal units that became known as "Dingman's dogs." Through a blizzard of makeovers, spinoffs, and buybacks, he salvaged many of them—and grew rich.

Dingman dismisses talk that Henley was an exercise in asset shuffling. Sipping Scotch aboard his elegant new 115-foot yacht, Dingman insists that investors who held Henley shares from its 1986 birth to its 1992 liquidation made fivefold gains and that some strong companies emerged, such as Fisher Scientific, a respected maker of medical equipment.

Following Henley's liquidation, Dingman briefly indulged his fantasy of becoming a professional race-car driver. But after a friend's accident, Dingman's wife Betsy balked, he quit racing, and the couple settled down in the Bahamas. Restless and gregarious, Dingman couldn't retire. Meeting Kozeny seemed like fate. The two men talked endlessly for about a year, Dingman recalls, and gradually forged their East European alliance.

Their partnership makes eminent sense. Mutual funds are restricted by Czech rules from owning more than 20% of a Czech company, but individuals—including foreigners such as Dingman—aren't limited. Kozeny brings Dingman big stakes in companies and intimate knowledge of Czech industry. For his services, Kozeny will get 10% of Dingman's profits.

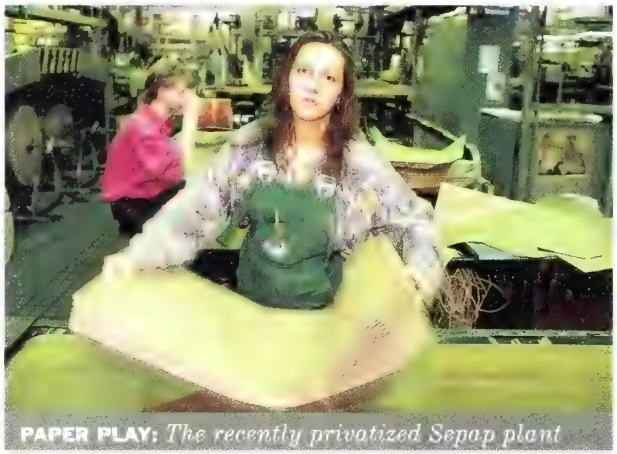
BUYING CREAM. These island exiles also have a strong partner in Prague: Daniel J. Arbess, an energetic Canadian lawyer who until October was the top global privatization expert of U.S. law firm White & Case. A Prague resident since 1990, he is widely respected. "If Mr. Arbess is engaged in [Stratton], that's good enough for me," says Tomas Jezek, chairman of the Czech Parliament's budget committee. Dingman calls Arbess his "orchestra leader" who will run Stratton on the ground.

Fixing their stable of companies will require all the partners' skill. "This is not a standard turnaround," says Mark Rooney, an American management consultant in Prague. "This is restructuring from the bottom up." He thinks they'll have trouble finding managers from the "short list of good people here." Still, Rooney says Dingman is buying "the cream" of Czech companies.

Dingman thinks that the makeover formula he used in the U.S. will work fine in Prague. First, he'll impose tighter financial discipline. Inventories are kept too high, out of an archaic communist concern for peak production. Companies pay their bills too fast but let customers pay too slowly. Dingman plans to fix these problems by releasing cash to buy new, more efficient equipment.

Image is obviously a problem for Dingman. As the Sepap fight raged, the Prague press suggested Dingman was attempting greenmail—a charge he denies. Yet once Prague meets Mike Dingman, concerns over his style may evaporate. He's a charming team-builder who inspires loyalty—"charismatic," in the view of former Ford President Harold A. "Red" Poling. And he has undeniable strengths: access to capital, lofty connections, and restructuring skill. Czech companies that will be taking orders from the Bahamas may face more shocks, but it's what Eastern Europe needs.

By Stewart Toy in Nassau, the Bahamas, and Karen Lowry Miller in Prague



PAPER PLAY: *The recently privatized Sepap plant*

Major Czech holdings of Dingman and Kozeny

COMPANY/BUSINESS	PERCENT OWNED	WHAT DINGMAN MAY DO WITH IT
SEPAP Pulp & paper	51%	Acquire Russian, other paper companies
SPOLANA Chemicals	30	Find joint venture for excess capacity
BIOCEL Pulp	36	Diversify into paper
PLZENSKE PIVOVARY Beer	31*	Develop global marketing strategy
SKLO UNION Glass	57	Reshape its financial structure

*Kozeny stake only

DATA: STRATTON GROUP, BUSINESS WEEK

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BOSNIA

A SMART BET IN THE BALKANS?

With Bosnia exhausted, Clinton's bid may well succeed

The central Bosnian town of Novi Travnik, where early battles between Muslims and Croats raged, looks like war-torn Beirut. A trench forms a "green line" that splits the once united town into two enclaves with separate mayors and bureaucracies. But that didn't stop the American Refugee Committee (ARC) from enlisting the bitter enemies to rebuild and use apartments, a department store, and a kindergarten. "People here were killing each other a year ago," notes Joseph P. Sullivan, an ARC co-founder and chairman of Chicago fertilizer giant Vigoro Corp. "This shows that psychological and physical wounds can be repaired."

One microproject alone does not lay a foundation for peace. But it shows that President Clinton's pledge to send 20,000 peacekeeping troops to Bosnia—despite public and congressional misgivings—may not be as bad a risk as it seems.

The war-weary Bosnians have been exhausted by fighting and atrocities. Moreover, the Nov. 21 peace accord and the structure of the NATO force lessen the dangers that U.S. troops will face. And Clinton stands to raise his standing by assuming the moral and political high ground in his most important post-cold-war geopolitical challenge. "The risk is minimal," says Milan Panic, a former Prime Minister of Yugoslavia, who is CEO of ICN Pharmaceuticals Inc. in Costa Mesa, Calif. "The benefits are enormous."

WHO PAYS? To be sure, the Bosnia peacekeeping mission won't be a lark. All sorts of hazards await the troops—from land mines to angry Bosnian Serb snipers to anti-Western *mujahideen* in the Muslim districts. And Clinton could be tested by divisions in NATO. Jonathan Eyal, an international security expert at the Royal United Services Institute for Defense Studies in London, predicts "unseemly tussles between the Europeans and the Americans to see who picks up the bill."

Another possible pitfall for the White House: voter opposition. A *USA Today*-CNN Gallup poll after the President's Nov. 27 speech showed that 52% of the public doubted that sending troops would protect vital U.S. interests. After ignoring foreign policy for so long, the White House has a tough sell. "The Clinton of the first 2¼ years undermines the Clinton of the last two weeks," says historian Michael R. Beschloss.

FETCHING WATER: *Infrastructure repairs in Bosnia could cost $5 billion*

Yet Clinton may ultimately make some major gains from his peace efforts. He looks Presidential by taking an unpopular stand because, as he put it, intervention "is the right thing to do." He may well put the Republicans on the defensive so that they won't vote to oppose sending the troops.

> Taking a strong stand makes Clinton look Presidential—and puts his Republican opponents on the defensive

The Administration is counting on several factors to reduce the President's political exposure. The peace accord, which is to be signed in Paris in mid-December, separates the warring factions and forces them to retreat, with their heaviest artillery, to barracks. Harsh winter weather should help keep malcontents indoors and thus reduce casualties. What's more, U.S. troops and their NATO allies will be better trained, armed, and prepared to retaliate than were U.N. peacekeepers (page 98).

After the winter, efforts to boost the local economy could give former combatants a greater stake in peace. The World Bank estimates that, during the next three or four years, Bosnia may need as much as $5 billion in aid for top-priorit reconstruction projects, including nev buildings, power generation, roads, an water and sewage systems.

POPCORN PATTER. Donor countries pla to iron out their contributions at a meet ing in London this month, but it coul be a messy confab. The European would like the aid burden shared ever ly by three groups: Europe, the U.S and everyone else. But Washingto wants to cap its contribution at abou $500 million. Britain is balking at shel ing out much more than $200 millio noting that it has already forked ove $425 million in humanitarian aid, plu $700 million to finance its peacekeepin force. Germany fears it will get stuc with the bill if European neighbors don follow through on their pledges.

Even before an economic agreement i struck, Bosnians are dreaming of what t do with the largesse. Dragan Vladic, Bosnian Croat and an interpreter for th U.N. High Commissioner for Refugees says the imminent arrival of GIs ha created new longings. "People are talkin about McDonald's, Kentucky Fried Chick en, and popcorn," he says. "They're hop ing Americans will bring a better life."

But a bright economic future won' come easily in a land beset by centurie of conflict and hatred. Balkan leader have finally said that enough is enough The fate of U.S. soldiers—and perhap President Clinton's own reelectio hopes—hinge on how many of their fol lowers agree.

By Stan Crock in Washington, wit James Drake in Zagreb, Paula Dwye in London, and Richard A. Melcher i Chicago

HE RUPERT MURDOCH F MEXICO?

levisa's Azcárraga wants to crash the global major leagues

e's clearly one of the most powerful men in Mexico. As chairman of Grupo Televisa, Emilio Azcárraga lmo presides over a $1.3 billion em- e that dominates television, radio, d print media in Mexico—and sells ap operas, news, and other program- ng to 90 countries. With growing op- ations in the U.S., the rld's largest Spanish-lan- age media company is fast panding its reach. All that akes Azcárraga Mexico's sest answer to media agnate Rupert Murdoch.

But for the ambitious cárraga, 65, that's not ough. Now, he's actually aming up with Murdoch in bid to catapult Televisa o the major leagues of in- rnational media. In a deal med on Nov. 20, Televisa ll join Murdoch's News rp., the international arm U.S. cable-TV company le-Communications Inc. CI), and Brazilian media gi- t Organizações Globo to ing direct broadcast satel- e service to Latin America. e partners plan to invest least $500 million to beam 0 channels to Latin Amer- a and the Caribbean by xt May. News Corp., Tele- sa, and Globo will each vn 30% stakes in the new mpany, while TCI will con- ol 10%. "It's probably the ost powerful alliance in ty-TV in the world," says iraj Gupta, a media analyst Nomura Securities Inter- tional Inc. in New York.

OAP OPERAS. Expanding ternationally is key to levisa's long-term growth rategy, especially now that e home market is depressed. With exico's economy floundering after the eso devaluation, Televisa's revenues e off 11% through September. That arts, since Televisa depends on Mexi- for an estimated 80% of sales. The mpany laid off 10% of its workforce, spended its shopping channel, and iminated 30 of its more than 100 mag- zine titles.

But the outlook is brighter abroad. In the U.S., the company owns 25% of the Spanish-language network Univision Holdings Inc. and a 40.5% interest in PanAmSat Corp., a global satellite system. Its rags-to-riches soap operas—just part of the 48,000 hours in programming it produces annually—are viewed from Miami to Moscow. By teaming up with big-time partners in Latin America, Televisa aims to find new outlets for its programs and boost advertising and subscriber revenues.

Outside Mexico, Televisa will have to learn how to survive in a more competitive environment. The company's decades-long chumminess with the long-ruling Institutional Revolutionary Party (PRI) has given it virtual monopoly power. Azcárraga often calls himself the country's "No. 2 *priista*," or party supporter. In one indication of his clout, the government's antimonopoly commission didn't protest when Televisa won 67 new station concessions, allowing it to create a fourth national network in 1994. Earlier this year, the commission approved a controversial alliance between Televisa's cable unit and Teléfonos de México.

BLACKLIST. As a result of its dominance, Televisa has gotten away with requiring advertisers to pay a year in advance or forfeit discounts and top-rated spots. It blacklists artists who perform with competitors. And its newscasts, the only source of information for most Mexicans, treat authorities with reverence. When local elections recently produced surprising losses for the PRI, Televisa's main newscast led with bullfights.

Indeed, Televisa's only major rivals—Televisión Azteca, a government network privatized in 1993, and pay-TV operator Multivisión—pose no serious threat. Azteca has boosted market share from 5% to 15%, for example, but mostly at the expense of small remaining government channels, not Televisa.

But it will face a tougher market in Latin America. Analysts say it may take years for pay-TV to attract a sizable share of the region's 460 million viewers. Given wide gaps in income in the region, some estimate the market will be limited to 20% of all households. Moreover, another partnership is eight months ahead of Televisa in rolling out a satellite service for Latin America: Hughes Communications Inc. has joined forces with Mexico's Multivisión, Venezuela's Cisneros Group, and Brazil's Televisão Abril. While the partnership lacks Televisa's and Globo's programming clout, it will be the first to grab subscribers.

Nevertheless, by signing the satellite deal with Murdoch and Globo's Roberto Marinho, Azcárraga has made allies of his strongest potential rivals. That's a fitting move from a businessman known as one of Mexico's most astute and aggressive. Now, Azcárraga has to prove that he can play the global game.

By Elisabeth Malkin in Mexico City

AZCARRAGA: *A big pay-TV deal with potential rivals*

TELEVISA'S SPRAWLING MEDIA BIZ

	1994 SALES, MILLIONS OF DOLLARS
TELEVISION Controls 80% of Mexico's TV market through four networks. Sells programming to 90 countries.	$771
PUBLISHING Mexico's largest print media publisher. Has joint ventures with Hearst and Ziff-Davis.	231
RADIO Owns 16 Mexican radio stations, which promote stars signed to its three recording labels.	88
CABLE TV Holds franchise for Mexico City area.	74
OTHER Produces and distributes films, owns soccer teams, and has stakes in billboard advertising and paging operations.	125

DATA: COMPANY REPORTS

EDITED BY STANLEY REED

RUSSIANS SEE RED —AND WILL PROBABLY VOTE THAT WAY

To an outsider, Gennady Zyuganov, chief of Russia's Communist Party, seems like a plodding nonentity. But the former teacher and *apparatchik* is likely to emerge as a Kremlin kingpin in parliamentary elections scheduled for Dec. 17. Analysts predict that the Communists, whom Zyuganov has quietly built into a formidable political force, will gain the largest bloc of votes—perhaps 25%.

It should come as no surprise that the Communist revival is bad news for private business. Ultranationalist Vladimir V. Zhirinovsky's strong showing in the 1993 State Duma elections forced President Boris Yeltsin to harden his foreign policy, culminating in the Chechnya debacle. The Communists will try to exert similar influence over their No. 1 issue: management of the economy.

REFORM-BUSTER: *Party boss Zyuganov*

That said, most observers doubt the stock markets will be closed or Western executives booted wholesale out of the country. Russia's new capitalism has gone too far and enriched too many to be put into full reverse. But the Communists will have an impact. Zyuganov has been wooing foreign business executives with promises of a more stable business environment. But his platform is clearly antireform, calling for a rollback on privatization, big subsidies for industry and the poor, and bans on land sales. Along with Russian nationalist groups, he could well push to limit the role of foreign oil companies among others. "The oil companies or anybody involved with natural resources has to be worried," says Peter Charow, executive director of the American Chamber of Commerce in Moscow.

WORTHLESS PENSIONS. Zyuganov, 51, is a much purer form of Communist than the recently elected Polish President Aleksander Kwasniewski. Although he served as a Cabinet minister in the old regime, Kwasniewski is an opportunist who now embraces market economics. Zyuganov on the other hand is a throwback—a belt of straight vodka. Particularly worrisom is the prospect that the Communists, together with th Agrarian Party, which opposes private farms, and General A exander Lebed's nationalist followers, may wind up wit more than 40% of the Duma seats. All of these groups harb hostility to the market approach that Yeltsin and Prime Mi ister Viktor S. Chernomyrdin have kept on track. Reforme are unlikely to get more than 25% of the seats.

The Communist revival is occurring because Russia's an thing-goes capitalism has brought mostly grief for many ord nary Russians. Since the collapse the Soviet Union in late 1991, man people have lost their jobs and see inflation wipe out their savings an render their pensions nearly worth less. Such Russians protested in 199 by voting for Zhirinovsky, who ha done little for them. This round, the probably will shift to the Communist who promise to be more effective.

NO FREE HAND. The election is als likely to demonstrate how unpopula Chernomyrdin and, by extension, Yel sin are. Chernomyrdin's Our Home is Russia party may onl get 10% of the vote. Old-style reformers, such as Yegor Gaidar and Boris G. Fedorov, will probably score even less

Still, the election won't gain Zyuganov anything like free hand. Even an ailing Yeltsin is far more powerful tha the Duma. Also, Zyuganov is smart enough to know that Rus sia can't alienate the international aid agencies and the bank

But Zyuganov is on the rise at an opportune time. If h scores as well as predicted on Dec. 17, he may be able to se the tone for the far more important presidential elections nex June 16. That vote will be crucial for Russia's future. What i scary is that with Yeltsin ill and increasingly unpopular, th winner is still anybody's guess.

By Peter Galuszka in Mosco

GLOBAL WRAPUP

MEXICAN BANK BAILOUT

▶ Mexico's banking crisis is becoming an expensive headache for the Mexican government. The Zedillo administration has spent more than $3 billion to help out troubled banks. Now, the country's two largest banks—Banamex and Bancomer—confirm that they are negotiating a possible government buyout of some of their sour loans. Analysts figure that the loan buyoff for Banamex, Bancomer, and two smaller banks, Banco Mexicano and Banca Confía, might tally $3 billion. As much as half of that financing could come from the World Bank.

TROUBLED FRANCE

▶ France's bloated welfare state is proving to be tough to shrink. Unions are staging the most disruptive strikes in years in an effort to block planned health-care and pension cuts. They shut down rail and other transit service for a week in late November, and more stoppages have been promised. Students have also begun demonstrating, demanding bigger education budgets.

HUSSEIN vs. HUSSEIN

▶ Five years ago, Jordan's King Hussein refused to join the U. S.-led coalition against Iraqi strongman Saddam Hussein. But the King seems to have made a remarkable about-face. The Jordanian monarch recently went to London to try to persuade the various Iraqi opposition groups to put aside the parochial differences that have made them so ineffective. The King hopes to arrange a conference in Amman soon to lay plans for a post-Saddam Iraq.

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PROBLEM:
"SILLY LAWSUITS ARE PUTTING PEOPLE OUT OF BUSINESS ALL OVER."

SOLUTION:
ILLINOIS JUST OVERHAULED ITS LIABILITY LAWS TO HELP SHIELD BUSINESSES FROM FRIVOLOUS LAWSUITS.

Illinois knows how damaging frivolous liability lawsuits can be. That's why new laws were recently enacted to help businesses substantially cut the costs of protecting themselves. Changes in tort law, product liability and medical malpractice all aim at protecting consumers without putting people out of business.

It's just one more example how Illinois is pro-business. And why your business should be pro-Illinois.

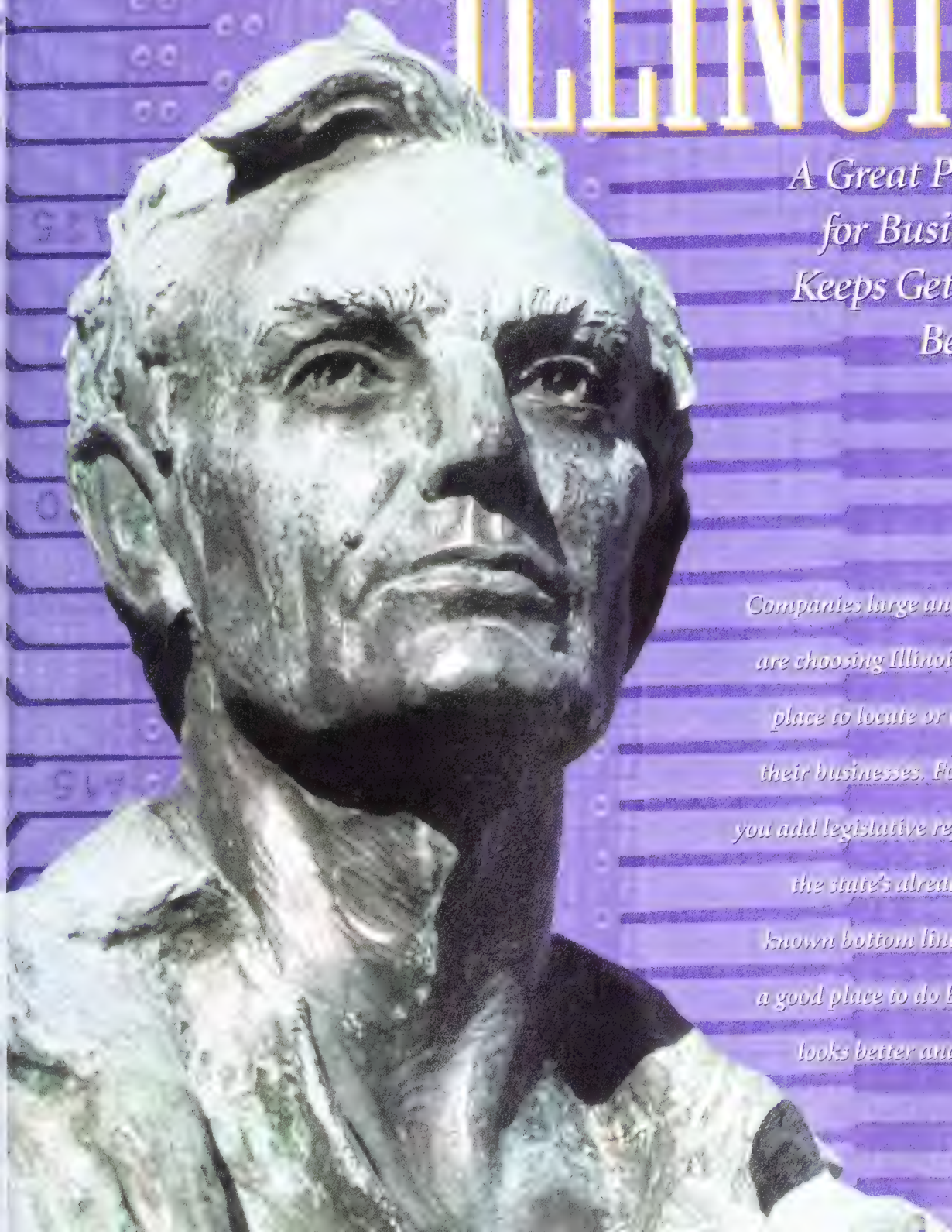
ILLINOIS

A GOOD PLACE TO DO BUSINESS KEEPS GETTING BETTER.

For information regarding community profiles, infrastructure, available land & buildings, and taxes & business climate, call the Illinois Department of Commerce and Community Affairs at (217) 785-6167. Fax us at (217) 524-4145. Or E-Mail us at *illinois.dcca@accessil.com* on the Internet.

ILLINOIS

A Great Place for Business Keeps Getting Better



Companies large and small are choosing Illinois as the place to locate or expand their businesses. For when you add legislative reform to the state's already well-known bottom line assets, a good place to do business looks better and better.

JIM EDGAR

STATE OF ILLINOIS

OFFICE OF THE GOVERNOR

CHICAGO 60601

Economic development is an important concept not only to the corporate giant but also to the individual who strives for and dreams of a prosperous tomorrow. Illinois fosters and kindles this entrepreneurial spirit by establishing the basic ingredients for economic growth and job creation: a highly educated and skilled workforce, a favorable tax and regulatory climate, and technical and financial assistance programs. Illinois also supports its business community with legislative proposals that provide a stable environment for growth and development.

As part of our "fast track" agenda this past Spring, legislative leaders and this office have worked together to propose a series of business friendly bills:

- Legislative reforms to Illinois' liability laws which reduce medical malpractice costs, thereby reducing business health-care costs and making it more financially feasible for doctors and other health-care providers to locate in the state.
- A repeal of the duplicative and outdated Structural Work and Road Safety Acts, thereby bolstering the state's efforts to create jobs while maintaining significant protections for injured workers.
- Tort reform measures that would restore fairness to the system and eliminate the costly and archaic system of the past.
- Successful expansion of property tax caps thereby saving both businesses and individuals millions of dollars.
- A sound financial plan which places an emphasis on educating and protecting our children, supporting advanced infrastructure and technology and enhancing Illinois' economic position as we near the 21st Century.

In Illinois, we have always prided ourselves on creating a business climate that promotes broad-based economic growth for all firms and industries. Our workforce, infrastructure, transportation system, and quality of life advantages make Illinois a state that works for business. With a new year fast approaching we look back with pride at the accomplishments of the year and look forward to an even brighter tomorrow.

Sincerely,

Jim Edgar

Jim Edgar
GOVERNOR

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ILLINOIS

A Great Place for Business Keeps Getting Better

Founded in Chicago in 1928, Motorola had established a strong heritage—and thriving international business—in the state of Illinois. Even so, in 1994, the communications giant "shopped around" for a site for its new $100 million cellular phone manufacturing plant. One state in particular went head-to-head with Illinois to lure the company away. After an intense lobbying campaign—with personal involvement by both states' governors—Motorola decided to make Illinois the launching pad for an ambitious worldwide growth plan. The new plant in Harvard, Illinois, along with plans for expansion of Motorola facilities in two other Illinois locations, could create up to 8,000 new jobs. Motorola officials noted Illinois' favorable tax structure, its high-quality workers and the overall business climate as the main reasons for its choice.

"What we offered was our continued commitment to creating the kind of business-friendly environment that virtually guarantees long-term economic growth," explains Illinois Governor Jim Edgar. Indeed in the year since Motorola announced its decision, the strength of that promise was demonstrated by the enactment of some of the most sweeping regulatory reforms in Illinois history—reforms that could save businesses millions of dollars in liability and insurance costs.

Long known as a transportation hub, Illinois is also a hub of financial, telecommunications, biomedical, software, and other technology industries.

Rediscovering the 'Illinois Difference'

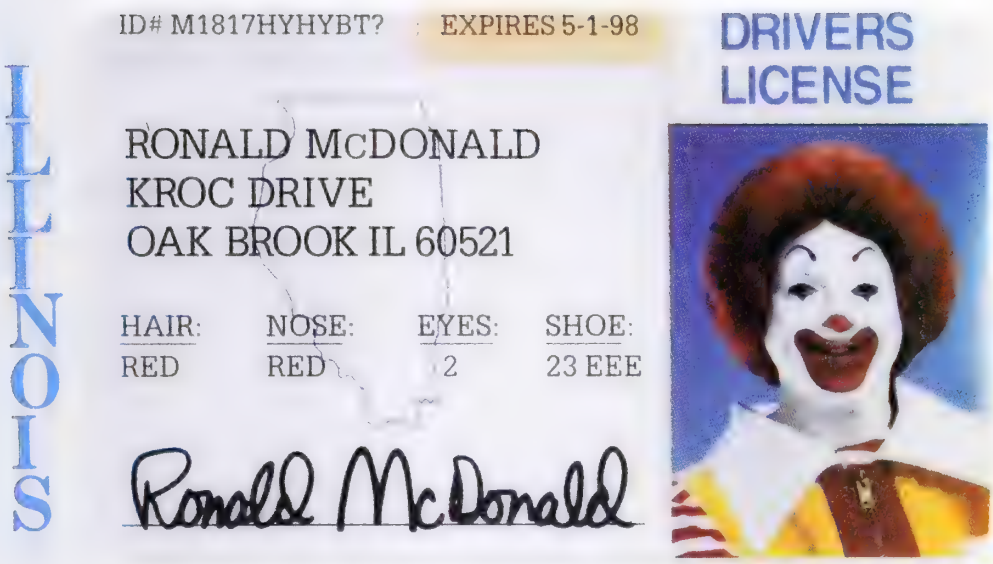
Companies large and small are choosing Illinois as the place to locate or expand their businesses. In November, McDonald's Corporation announced what will be the largest expansion of a corporate headquarters in Illinois history. The ambitious 20-year expansion plan, officially approved by the Village of Oak Brook, Illinois, was undertaken because of McDonald's impressive international growth. McDonald's celebrates its 40th anniversary as a company this year—all 40 years in Illinois.

In November, McDonald's unveiled plans to add 7,000 jobs at its Oak Brook headquarters

Armstrong World Industries chose Kankakee, Illinois, over other states and Canada for a major expansion of its floor covering business. The state's loyal, hard working labor force and superior location for distribution were the main draws for the 350-employee manufacturer. Funds from the state for retraining programs, infrastructure upgrades and access to a low interest community development loan helped seal the deal. "I didn't realize just how pro-business the state was," admits Steve Husak, plant manager. "I was pleasantly surprised at how much the state came to our aid to encourage us to expand here."

Armstrong and other companies are discovering that when you add pro-business reforms to the state's already well known bottom line assets, a good place to do business looks better and better. "Since the reform packages were passed," says Dennis Whetstone, director of the Department of Commerce and Community Affairs (DCCA), "inquiries from companies about doing business in Illinois have skyrocketed. They know what these reforms mean."

One of Illinois' proudest residents.



Illinois has always been a place where people dream big — a fact McDonald's Corporation founder Ray Kroc knew well. Which is why, for over 40 years, McDonald's® has been proud to call Illinois home.

McDonald's®

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What Reforms Mean for Business

The Illinois General Assembly has made tremendous progress on a legislative agenda considered to be the most "pro-business" in the state's history. "This is the most jobs-friendly Illinois General Assembly in at least a generation," asserts Lt. Governor Bob Kustra. Here are highlights:

- Reforms to Illinois' liability laws will curtail medical malpractice costs, thereby cutting business costs. In addition, employers can now purchase high-deductible health insurance with lower premiums and deposit what they save in nontaxable savings accounts to pay for their employees' healthcare needs.
- Repeal of the Structural Work and Road Safety Acts, which allowed workers to "double dip" in receiving compensation for injury on the job, will mean significant savings to business.
- A model for national efforts, product liability and tort reform is already curtailing frivolous lawsuits which can cripple business. Among its provisions, the bill caps punitive damages to three times economic damages and limits noneconomic damages to $500,000.

Since passage of the bill, the number of liability cases being brought in Illinois has dropped from 25 a week to four, according to Lee Daniels, speaker of the Illinois House. "This is a model for the nation," says Daniels. "Many of the things being discussed in Washington right now we have already passed into law here in Illinois."

The reforms come at a crucial time for many Illinois manufacturers who are looking to expand. A 1992 study had documented 6,000 separate decisions by businesses over a four-year period *against* expansion or investment in Illinois because of concerns about liability. "Overnight, Illinois went from being one of the most litigious states in the country to one of the more friendly and fair to business," says Gregory W. Baise, president of Illinois Manufacturers' Association. "The reforms went further than anything attempted in this country."

Adding icing to the cake, the 1995 legislative session ended without passing a tax hike. Business taxes in Illinois are holding at well below the national average, freeing up resources for expansion and growth. "Illinois refused to take the easy way out when the recession of the early 90s hit," says Gov. Edgar. "While other states were raising taxes, we tightened our belts and that fiscal discipline is paying off."

Farming and agribusiness, always core Illinois businesses, are growing as ethanol fuel and other products emerge.

The General Assembly isn't finished yet. Still on the agenda are more reforms to workers' compensation and unemployment compensation laws, which companies cite most often as a primary disincentive for locating in Illinois. "We are the most generous state by far in workers' compensation in the Midwest," says James "Pate" Philip, Illinois State Senate President. "We can be more competitive while still protecting our workers."

To keep utility costs competitive, Illinois Power has led the charge toward a transition to a competitive utility industry from the current system of utility monopolies. In order to test the impact of deregulation, Illinois Power has proposed that 20 major industrial customers be allowed to choose their electricity supplier beginning in 1996.

"What we learn by evaluating the experience of industrial customers, will show us how competition can meet the needs of all customers," says Larry D. Haab, president and CEO of Illinois Power.

Governor Jim Edgar placed a Chrysler "Neon" label on one of the first in the company's new line of automobiles. State assistance helped Chrysler invest millions to retool its Belvidere plant.

From Cars to Candy: Strength in Diversity

With reforms easing the burden on business, the traditional strengths of the Illinois economy can shine. A quick look at Illinois' leading companies reveals one of those strengths—its unparalleled diversity. In few other locations will you find such a variety of industries flourishing side by side. Illinois workers are building the Ford Taurus and the Chrysler Neon. They are making the Tootsie Roll Tootsie Pop and the Nabisco Oreo. They're assembling Caterpillar tractors and wireless phones. They're mining coal, drilling for oil and farming what Senate President Pate Philip calls the "blackest soil you'll ever see."

Out of this rich diversity, a number of dynamic industry "clusters" have emerged that ideally position Illinois for the 21st century global marketplace. Already a full 21 percent of the state's total employment is in export services, including insurers, bankers, credit agents, brokers, lawyers, and printers and publishers. A cluster of businesses also has sprung up around the industries of health services and biomedical products, transportation and distribution, and business and personal travel. Last year, Illinois was the number-five state nationally in terms of dollars generated by tourism—and first among states without a seashore.

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ıonly known as the Midwestern hub on
ıe information superhighway—gave birth
› Mosaic, a computer program that helps
eople navigate the Internet and the World
Vide Web. Now an entire industry is spring-
ıg up from technology developed in
linois around Internet services. In 1994,
pyglass, Inc., signed an exclusive licensing
greement with the University to enhance
Aosaic technology for commercial pur-
oses. Now the company is providing the
guts" of Internet browser/ server software
› such technology giants as Microsoft,
Compuserve, AT&T, Oracle Corporation,
nd Digital. Netscape Communications
Corporation, which also grew out of
NCSA, has created its own Web browser to
narket to end users. Both companies went
›ublic this year.

U.S. Robotics, Inc., a leading supplier of
›roducts and systems that provide access to
nformation, is among the fastest growing
ompanies in Illinois. Founded in Skokie in
976 with three employees, the company
›oasted $596 million in revenues for the
irst nine months of 1995 and 3,250
:mployees (2,200 in Illinois). The compa-
ıy recently purchased a 302,000-square-
'oot facility in Morton Grove to support its
worldwide expansion.

"Superior People" Make Up Illinois Labor Force

The Native Americans who once inhabited what is now Illinois called themselves "Illini-wek," which means "superior people." That description still fits the workers of Illinois whose productivity exceeds the U.S. average by more than $1.86 per hour in terms of value-added manufacturing. The "quality and caliber" of Illinois workers was the main factor in Motorola's decision to expand in Illinois.

The state has committed itself to supplying businesses with the highly-trained workers they need. Illinois ranks near the top nationally in the number of state tax dollars used to train and upgrade workers' skills. "We don't consider helping companies with worker training as an incentive," says Whetstone of DCCA. "We consider it an investment. It is our job to supply business with the skilled workforce needed to stay competitive in a world market."

The state supports businesses' retooling efforts through its network of state-of-the-art training and retraining programs for Illinois workers. Illinois' community colleges work with companies to tailor curricula to their specific training needs. Using two-way interactive networks and other advanced communications, education and training reaches workers in even remote, rural areas of the state.

Illinois workers have helped the state weather many an economic downturn. "The main reason Illinois has been and continues to be such a strong manufacturing state is the quality of the work force," asserts Baise of the Illinois Manufacturer's Association.

Commitment to Excellence

Another reason is that manufacturers know how to adapt to changing times. In the 70s and 80s, the U.S. economy saw a shift from its traditional manufacturing base toward service-oriented industries. That change, plus a couple of walloping recessions, devastated much of the Rust Belt. But Illinois weathered the storm better than most, because its manufacturers decided early to "change or die," according to Sally Jackson of the Illinois Chamber of Commerce.

"When the automakers began losing market share to foreign companies, they reengineered themselves using Total Quality Management standards," says Jackson. "They made huge investments in technology and human resources. Illinois manufacturers were 10 to 15 years ahead of other industries in adopting strategies to make their companies productive in a world economy."

That commitment to excellence continues unabated. The state is collaborating with its universities and laboratories to create a network of manufacturing extension centers in an initiative called COMPETE (Coalition for Manufacturing Performance through Technology). These centers, strategically located around the state, will provide businesses with easy access to information on technology and modernization resources.

In the International Markets, Everyone's a Player

Long before the term "global marketplace" was part of the business lexicon, Illinois companies were making their mark in the world economy. Illinois exports reached an all-time high of $26.4 billion in 1994, an increase of 20.2 percent from 1993 and nearly double the 10.2 percent increase of all U.S. exports for the same period. First quarter 1995 figures showed a 32.5 percent increase over the same period the previous year.

A full one in eight Illinois jobs is dependent on exports. One in four manufacturing jobs are connected to international trade. Of the nation's 60 leading export companies, seven are located in Illinois. No other state has more. But the big companies, often with

Lt. Governor Bob Kustra (right) visits the headquarters of U.S. Robotics, Inc., perhaps the fastest growing of the many Illinois companies profiting from the explosion of Internet users. With Kustra at the Skokie, IL, modem manufacturing facility are Ross Manire (left), chief financial officer of U.S. Robotics and Casey Cowell, the firm's chairman.

internal resources for researching and cracking international markets, aren't the only ones making a splash in the global marketplace. The "little guys" also are thinking and acting globally, thanks to abundant support from the Illinois government.

Plasco, Inc., a 120-employee manufacturer of disposable medical products in Gurnee, Illinois, was able to crack the Japanese market after the state of Illinois arranged an initial business trip, located distribution channels and showcased the company in an industry trade show in Osaka. After participating in state sponsored trade shows, Fluid Management, a manufacturer of paint colorant dispensers in Wheeling, increased its export sales to Mexico by 300 percent in 1993. The international division of Ameritech, with 200 employees, secured a 25-year contract with Hungary's developing telecommunications system after the state of Illinois arranged key appointments.

"Economic trends bode well for Illinois' future," says Jim Graham, deputy director for business development for DCCA. "We're ideally poised to provide the products that people around the world are anxious to buy."

Illinois anticipated the shift to a global marketplace when in 1968 it was the first state to open an international office, this one in Brussels. Now the state maintains six offices in Europe, Asia, and Latin America, and remains well ahead of the pack in providing export assistance to businesses. "The markets have exploded overseas," says Jackson of the Illinois Chamber, "and we have the information and the contacts already in place to help small- and medium-sized businesses exploit those opportunities."

Illinois waterways: Direct links to the Atlantic Ocean and the Gulf of Mexico. Water, rail, road, and air transportation make Illinois a stepping stone to the world.

From Pork Bellies to Risk Management: Illinois' Financial Services

Strengthening these international ties i Illinois' thriving financial services industry In particular, the four financia exchanges—the Chicago Board of Trade the Chicago Mercantile Exchange, th Chicago Board Options Exchange and th Chicago Stock Exchange—have establishe Chicago as one of the world's most com petitive, innovative financial centers.

Established in 1848, the Chicago Boar of Trade is the world's oldest and larges futures and options exchange. Today, th Board trades traditional agricultural con tracts such as wheat, soybeans, and corn, a well as financial contracts. The Mercantil Exchange traded more than $200 trillion worth of futures and options in 1994. Th Chicago Board Options Exchange account for approximately 65 percent of all option traded in the U.S. And the 104-year-ol Chicago Stock Exchange is the nation's second largest in terms of dollar value o shares traded.

Ameritech, one of the original "Baby Bells," chose Chicago as the center of its rapidly expanding worldwide communications network largely because the financial services industry has a strong core of high-tech vendors. "Sophisticated businesses today that are operating on a worldwide basis require sophisticated financial support," says Ameritech spokesperson Michael Brown. "The banks and other institutions here have muscle and contacts worldwide."

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Pioneers on the Silicon Prairie: Illinois Forges New Territory in Technology

When the history of the Internet is written, a wind-swept prairie in central Illinois will be duly noted as the birthplace of the World Wide Web. Previously the cyberspace stomping ground of a handful of European research scientists, the graphics-rich Web is now traveled by millions — thanks to a piece of software called Mosaic created by a team of computer programmers at the National Center for Supercomputing Applications (NCSA) at the University of Illinois in Champaign-Urbana. The new technology has not only transformed the Internet but turned several young computer whizzes into millionaires.

It may be a surprise to some that Illinois history is rich in technological breakthroughs — from the creation of barbed wire to the first splitting of the atom at the University of Chicago. Today, the state's high-tech industries are booming, in large part because of a winning combination of intellectual and financial capital.

"Not only do we have strong technology companies here in Illinois," says Ed Denison, executive director of the Chicago Software Association, "we have the infrastructure, such as venture capital, legal services, financial services and R&D, to support these companies." Two of the country's leading venture capital firms, Batterson, Johnson & Wang and Arch Development, are in Illinois giving strong support to technology companies in the early stages of development.

In the information technology industry alone, well over 1,000 companies have sprung up within a 150-mile radius of Chicago, an area dubbed "the Silicon Prairie." The companies range from communications giants such as Motorola and Panasonic to established software manufacturers such as SPSS to the smaller up-and-comers, such as Vision Tek, a producer of memory chips, which has grown into a $300 million company in just seven years.

A robust industry in biomedicine, biotechnology and pharmaceuticals has grown to maturity in Illinois, thanks to strong partnerships with the state's leading medical centers and research universities. The 640-acre Illinois Medical Center in Chicago is one of the largest in the U.S. and is anchored by the University of Illinois at Chicago, Rush-Presbyterian-St. Luke's Hospital, Cook County Hospital and Chicago Technology Park.

From barbed wire to wireless phones, from cookie baking to Internet surfing, Illinois is leading the world in technology and innovation. Shabbir Ahmed (above) of Argonne National Laboratory experiments with a device that could bring electric cars closer to practical use.

Some of the largest medical products manufacturers in the U.S. are headquartered in Illinois, including Baxter International, Beltone Electronics, and Siemens

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At places like the University of Illinois Institute of Technology and Argonne, academia and entreprenuerialism come together to invent new business opportunity. An Argonne researcher (above) develops new ceramic materials in a joint Argonne-Amoco Corp. venture to convert natural gas to sythesis gas, a first step toward developing many new industrial chemicals.

Gammasonics. Dozens of firms are involved in the research and manufacture of bio-related materials in agriculture, bioremediation, food processing, and pharmaceuticals, including DeKalb Genetics, A.E. Staley and Allied Signal, and Abbott Laboratories.

In Illinois the name of the game is technology transfer. Scientists in more than 600 public and private laboratories are helping businesses not only navigate the information highway, but improve the food we eat, the cars we drive, the offices in which we work, and much more. Here's a sampling:

At NCSA a new 3D "virtual reality" computer program now being developed will allow engineers and designers to track and remedy air flow problems in office buildings. Carrier, the air conditioning manufacturer, plans to use the technology to improve its products. NCSA is helping numerous "industrial partners" transfer new technologies to the marketplace, including Motorola, American Airlines, and the Tribune Company.

At Argonne Laboratory scientists help businesses in a variety of ways to create new products and processes and to solve scientific and technical problems. Funded by the U.S. Department of Energy, Argonne has been the source of more than 30 spin-off companies since 1984. One such company, Illinois Superconductor Corporation, went public in 1993 and is about to launch SpectrumMaster, a radio frequency filter that will allow cellular base stations to improve the quality of their customers' cellular calls. Another spin-off, Nanophase Technologies Corporation, is the world's leader in the production of ceramic and metallic particles which are about one-ten thousandth of the diameter of a human hair. At this near-atomic size, the elements can be molecularly engineered for a wide range of commercial uses.

At the Research Center at Chicago Technology Park, a biotech firm ThermoGen Inc. is developing products from bacteria found in hot springs for use in food processing, chemical synthesis and pharmaceutical production. The Research Center at CTP is the nation's largest bio-tech incubator laboratory facility, and a major player in the burgeoning bio-tech industry in and around Chicago.

"Expect to see more and more technology-driven companies dotting the Illinois landscape," says Thomas V. Thornton, president of the Illinois Coalition, a non-profit group dedicated to strengthening Illinois' economy through science and technology. "Significant steps are being taken in the public and private sector to promote the same sort of technology-based economic growth witnessed in Silicon Valley and along Boston's Route 128."

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From Transportation to Communications—Illinois Makes Connections

An internationally-minded business person could not pick a better location for reaching the global markets than Illinois. Chicago's O'Hare International Airport is the busiest in the world—more than 66 million travelers passing through every year and more than one arrival or departure every minute. The airport also is home to two of the world's major airlines, United Airlines and American. Each operates major hubs at O'Hare, giving the region a breadth of service unparalleled anywhere else in the country.

United Airlines has 2,000 daily scheduled flights serving 151 airports on five continents. Some 14.6 million passengers flew out of O'Hare on United on 1994—more than 40,000 per day on an average of 406 daily departures. United offers travelers non-stop flights to 88 domestic and eight international destinations. With 16,639 employees in the Chicago area and a 44.8 percent market share, United ranks eleventh among Chicago's top employers.

American Airlines and its regional airline partner, American Eagle, offer passengers nearly 500 daily departures from its "Gateway to the World" hub at O'Hare. American is the largest international carrier at O'Hare with flights to London's Heathrow Airport, Manchester and Birmingham, England, Glasgow, Stockholm, Brussels, Frankfurt, Paris, Milan, and Zurich. American also offers nonstop service to Ottawa, Calgary, Winnipeg, Toronto, and Montreal, Canada. In the early 80s American had approximately 25 employees in Chicago; today, the two carriers have more than 11,000 Chicago-based employees.

Illinois' O'Hare Airport gives thousands of U.S. business executives day-trip access to Illinois and makes overseas travel a breeze.

O'Hare airport is but one piece of an elaborate transportation network considered by many to be the best in the country. Chicago boasts the largest rail gateway in the country; more than two dozen railroads provide service to every part of the United States. Chicago also is a magnificent inland port city, offering shippers 70 terminals along the Illinois waterway system—with direct links to the Atlantic Ocean and the Gulf of Mexico. Some 2,000 miles of interstate highways—more than all but two other states—and 17,065 miles of state highways make Illinois a top thoroughfare for east-west and north-south shipping routes.

Tort reform, workers' comp cost-cutting, and tax caps are top priorities under the state capitol dome.

Information also moves briskly along more than 200,000 miles of fiber-optic cable. By 1998 the entire state will be "wired" for digital switching. The state's world-class research institutions—including University of Chicago, University of Illinois, Northwestern University, the Illinois Institute of Technology, Argonne National Laboratory, and Fermilab—and the more than 600 public and private research labs have set a high standard for the state's communications infrastructure. Ever since Illinois Bell introduced the nation's first touch-tone phones, the state has been an important testing ground for new communications technology. Fiber-optic communications, rapidly becoming the state-of-the-art, was first tested in Illinois 20 years ago. Ameritech pioneered the first commercial cellular communications service in 1983. Today, Motorola is leading a whole industry into the future with its cellular technology. Illinois businesses have access to all of this technology—at some of the lowest rates in the country.

Illinois: A Study in Contrasts

From quiet, rural towns to the up-and-coming high-tech mecca, Champaign-Urbana, to Chicago, "the city of the big shoulders," Illinois offers a style of life for every taste. If you like world-class art musi ums, symphonies, theaters, and cuisin Chicago is "your kind of town." Spor enthusiasts who can't get tickets to che on Michael Jordan and the Chicago Bull can still whet their appetite with the Bea or the Cubs or the White Sox—or even th Blackhawks of the National Hockey Leagu

A "collar" of more than 200 cities, town and villages surrounds Chicago prope offering beautiful neighborhoods—inclu ing the famous Oak Park where Fran Lloyd Wright developed his famous prairi school-style buildings—glittering reta malls, the well-know Brookfield Zoo, an several outstandin colleges and universi ties. Northern Illinoi is a mix of big citie like Rockford an Rock Island an charming small towns Central Illinois, th land where Lincol honed his politica skills, today boasts sev eral top state universi ties, including the Uni versity of Illinois a Champaign-Urbana an area that *Busines Week* ranked as one o the top 15 "hot spots in the U.S., for high-technology growt opportunities. Western Illinois inspire Mark Twain and the romance of the river continues there today. The sparsely popu lated Southern Illinois draws archaeologist to the 10,000 year old Modoc Rock Shelte excavation—and tourists to its scenic hill and sparkling lakes.

Families and businesses grow strong in Illinois, with its deep roots in home an community and its "can-do" attitude. Lit tle wonder that the state's per capit income was nine percent higher than the nation's. Illinois ranks ninth among the states in per capita personal income.

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This special advertising section was written by Kelsey Menehan, a frequent contributor to Business Week *special sections.*

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A SAFER NEW YORK CITY

Commissioner Bratton's businesslike crime-fighting is paying huge dividends

t 6:45 on a recent morning at New York City's police headquarters, precinct captains from Brooklyn file into a war room to plot crime-hting strategies. To an outsider, these uld not seem to be the innovative naround artists of a troubled organi-ion. Posted on one wall is an odd do: "We're Not Just Report-Takers—e're the Police!" A huge box of nkin' Donuts sits on a nearby table. But these cops, following the lead of lice Commissioner William J. Brat-n, are arguably the reason that 1,000 ver New Yorkers will be murdered is year than in 1990 and that some ,000 fewer cars will be stolen. Re-arkably, Bratton is managing to cut me on the mean streets of New York a stunning degree. Upon arriving in nuary, 1994, Bratton announced grand-that he and his 38,000 uniformed cops uld "fight for every house in the city; will fight for every street; we will ht for every block. nd we will win."

Much to everyone's rprise, he has made gnificant headway to-ard delivering on at promise. In 1994, ajor felonies in New rk fell by 12%, while ch crimes nationwide ll 2%. This year, ratton has vowed to crime-fatigued New Yorkers to lop off an additional 15%. He's on track, too. In the first nine months of 1995, felonies in New York City fell 18% vs. the same period of 1994. "There have never been results like these," says Thomas A. Reppetto, president of New York's Citizens Crime Commission, a private watchdog group. "It's a level of police presence and control that we have not had in a generation in New York."

Bratton, a 48-year-old Bostonian, is optimistic that New York will show the largest or second-largest decrease in all major crime categories when the FBI releases national crime data in mid-December. The payoff for New Yorkers should be a growing realization that the city is among the safest in the country. On a key ratio of crimes divided by the populations of about 180 U.S. cities, Bratton expects New York to rank 150th for the first half of 1995, considerably better than its 116th slot in 1994.

BRATTON: *"I equate profit with reduced crime"*

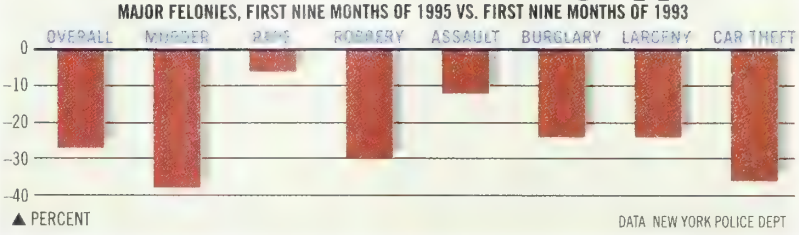
Much of what Bratton has done to achieve such results would seem rudimentary to a private-sector executive. But in an organization as insular and rudderless as the New York City Police Dept., even seemingly small adjustments represent vast change. Bratton is introducing technology, such as LAN systems in precincts and cellular phones in squad cars, that are leading to great gains in police effectiveness. And, he says, he's bringing the results-oriented discipline of the private sector to the NYPD: "I equate profit with reduced crime." To teach his top staffers how a private-sector organization works, Bratton has had such corporate chieftains as General Electric's Jack Welch, Johnson & Johnson's Ralph Larsen, and American Express' Harvey Golub in for "executive breakfasts." Digital Equipment Corp.'s Robert B. Palmer is coming in December, and Warnaco Group Inc.'s Linda J. Wachner is coming next year.

MORE BYTE. Bratton's corporate guests probably little imagined just how behind the times the NYPD was when Bratton took over. Crimes used to be tracked at each precinct with colored pins and wall maps, and citywide data were months old by the time they were assembled at police headquarters. Now, crime data are computerized and collected daily so that Bratton and his staff can spot developing trends and deeper problems.

Most significantly, Bratton issued a clear, simple goal for the entire department: Cut crime. Amazingly, the common belief before Bratton's arrival was that the police could do little to actually reduce crime. Lawbreaking, the thinking went, was caused by societal factors beyond law enforcement's control. Cops' efficiency

Crime's Decline in the Big Apple

MAJOR FELONIES, FIRST NINE MONTHS OF 1995 VS. FIRST NINE MONTHS OF 1993



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was largely measured by how quickly they responded to 911 calls.

While societal issues certainly play a big role, Bratton thought that by managing the department's considerable resources more effectively, he could have a big impact on how many crimes were actually committed. For example, under the community-policing strategies of recent years, individual street cops had been empowered to largely set their own schedules. As a result, many street cops worked bankers' hours—daytime, Monday to Friday.

But most crimes are committed on nights and weekends. Since no one was held accountable for increases in a precinct's crime rate, executives at headquarters were slow to see the problem, Bratton says. Now, power to schedule staffing and most other personnel matters rests in the hands of Bratton's 76 precinct commanders, who are given a freer reign to run their station houses, as long as the crime data—which Bratton gets daily—continue to decline.

But Bratton's chief managerial tool in his jihad to cut New York's crime rate by double digits is the early-morning meetings known as Compstat sessions. At Compstat, precinct commanders from different boroughs of the city meet weekly at headquarters. They're skewered for allowing major crimes to increase and must explain to Bratton, his top brass, and other precinct commanders what happened and what is being done to reverse the trend quickly.

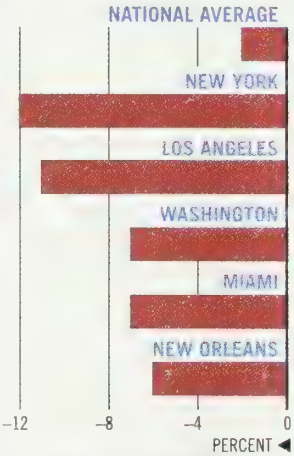
HELD ACCOUNTABLE. In the hot seat at a recent Compstat is Captain Michael Gabriel, who manages Brooklyn's 81st Precinct. Thirty-four people have been murdered there this year, an alarming 62% annual rise. "The citywide trend is down 37%, and you're up 62%," says Jack Maple, Bratton's chief strategist. "It's a serious problem we're having," Gabriel acknowledges, looking uncomfortable. On a wall-size screen hooked up to a computer-mapping program, Maple examines the murders according to the hour they were committed and then has the computer display the locations of drug complaints as well.

The map shows that most of the murders take place on a street where 44 shops are fronts for drug dealers. Gabriel has closed down nine of the storefronts, but the remaining 35 are still causing problems. Maple asks why more drug storefronts haven't been closed. After some probing, he learns the problem is civil-court judges in Brooklyn who won't sign the orders needed to close them. Maple orders an investigation and tells Gabriel to coordinate his efforts with a specialized narcotics squad. Gabriel is given two weeks to show he's making headway. "We're more directed, more focused, and reacting quicker," Gabriel says.

Even Bratton's critics concede the decrease in crime is having a profound impact on the city. "Thank God, thank Bill Bratton that those numbers have gone down," says Norman Siegel, executive director of the New York Civil Liberties Union. But Siegel complains that results-oriented cops are resorting to "questionable street-justice tactics," such as illegal searches, and that incidents of police brutality logged by his office are up. Other Bratton critics argue that other factors, such as longer prison terms, the hiring of about 7,000 more cops, and the decline of crack, have more impact on falling crime than management by Bratton. "No one can question there's a difference," Bratton responds. "We're not hiding bodies."

Falling Felonies

NYC LEADS IN REDUCING SEVEN MAJOR FELONIES
1994 RATES



DATA: FEDERAL BUREAU OF INVESTIGATION

But Bratton does f two thorny issues t threaten his ability continue delivering steep crime decrea New Yorkers are beg ning to expect. He contractually unable award good perform pay raises or me bonuses, and rank-a file cops are growi restless with their st nant wages and creased responsibilitie

Then there's Bratto boss, New York May Rudolph W. Giulia When Giuliani tapp him, Bratton was Bosto police chief. But Bratt was already well-kno in New York, thanks a successful and well-p licized stint in the ea 1990s running the the independent police force of New Yor transit system. Giuliani is seen as rel tant to share the spotlight, and Bratton probably the city's second-best-recogniz official. With crime way down and election year looming, it's unlikely Giuli will risk firing his successful police chi But earlier this year, sources say, Bratt nearly left after a contretemps in whi Giuliani disbanded Bratton's public-affa department. And Bratton, whose sala is only $110,000 a year, isn't shy about l ambition to make a jump into corpora life one day.

That's not as far-fetched as it soun Thanks to his high profile in New Yo Bratton hobnobs with Sony CEO Micha P. Schulhof in the Hamptons and refe to financier Henry R. Kravis as a "go friend." These days, "CEO Bratto seems about as far-fetched as t prospect of New York becoming one the safest cities in the country.

By Elizabeth Lesly in New Yo

Fixing the NYPD's Blues

Since arriving in January, 1994, Commissioner Bill Bratton has applied some basic management techniques to the NYPD

IDENTIFY A GOAL

The NYPD's job is to cut crime. Before, cops were reactive. Bratton fired any high-level cop who refused to believe crime could be slashed by managing resources more intelligently. Now, success is measured by the decrease in the crime rate.

EMBRACE TECHNOLOGY

Crime was tracked with pins and wall maps. Spotty citywide data were delivered to headquarters months later. Now, all precinct data are entered daily into a computerized mapping program. Police use the intelligence as a diagnostic tool.

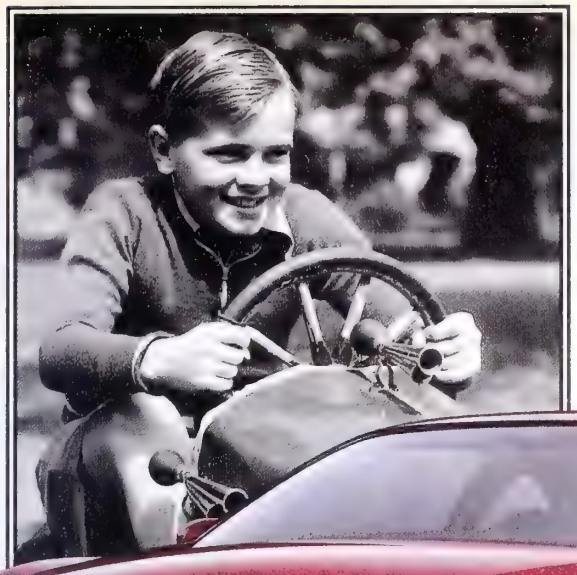
FOCUS AUTHORITY

Manpower deployment has been given to Bratton's 76 precinct commanders, who are able to manage their resources as they like so long as crime continues to go down. Street cops don't set their own schedules anymore.

MANAGE YOUR BOSS

New York Mayor Giuliani is famously difficult. Bratton has thus far enjoyed a détente with his prickly boss by delivering stellar results, thereby making it politically unfeasible for Giuliani to fire him.

DATA: BUSINESS WEEK, NYPD



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THE UNLIKEL

MOGUL

Can Jerry Levin keep a grip on Time Warner? Don't count him out

s the Atlanta Braves edged the Cleveland Indians to win the chilly first game of this year's World Series, TV cameras panned in on media mogul Ted Turner in the warm embrace of actress Jane Fonda. No surprise there: The dashing Braves' owner and his beautiful wife are baseball's equivalent of the Royal Fam-
More puzzling, though, was the slight, graying man standing to them in a dowdy ski jacket and a brand-new baseball Ted and Jane's guest that evening looked more like the ner of a "Sit in the Owner's Box" sweepstakes than what vas: Turner's potential boss and head of Time Warner Inc. erald M. Levin has never looked or acted like a media gul. He rarely even tries. That wouldn't matter so much ept that his relative lack of charisma is often linked to e Warner's sagging stock price. Ever since early 1993, en he took over Time Warner's chairmanship from the Steven J. Ross, Levin has been dogged by the notion he is inappropriate for the job. His capital as chairman CEO has sagged to the point where calls for his removal dly raise an eyebrow.

But Levin is very much the CEO of Time Warner, and one ning in mid-November he proved it. He ushered one of best-respected lieutenants into a room atop Time Warner's kefeller Center headquarters and fired him without warn-. Michael J. Fuchs, the longtime chairman of Home Box ice Inc., had only six months earlier been assigned to n up a messy set of executive mutinies at Warner Music up Inc. Now, to pave the way for a broad corporate reacturing, he was being sacrificed for his inability to get g with rivals Robert A. Daly and Terry S. Semel, co-CEOs he Warner Bros. Inc. studio.

AN BREAK. A week earlier, in the same room, Time Warn- much-maligned chairman had concluded a series of interws in which he described a six-year crusade to impose his ion on the company he helped create. It began in 1989 h the tumultuous merger of Time Inc. and Warner Communations Inc. It continues today with Levin's proposed $7.5 bil- all-stock purchase of Turner Broadcasting System Inc. vin insists there is logic to the chaos that swirls around Time rner—a necessary tearing down before the real building can gin. "I finally want to make as clear a break as possible into future," says the 56-year-old executive. "It will never be old Warner Communications or the old Time Inc. again. It going to be something totally different, as it must be."

Levin is attempting nothing short of a corporate revolution. such, it could easily blow up in his face. The Turner deal will confront big obstacles in Washington, in part because of the prominent role it gives Tele-Communications Inc. CEO John C. Malone, who owns 22% of Turner (page 96). Time Warner's valuable studio, HBO unit, and cable systems, meanwhile, are currently being held hostage by U S West Inc., which owns 25.5% of those assets and is suing to block the transaction. Even if the deal does get done and Levin can restructure the U S West partnership, he faces the biggest management challenge of his life: integrating two complex companies crawling with big egos. He has yet to prove he can truly lead a company with so many moving parts. "I think this thing is really going to test Jerry," cautions one worried Time Warner director.

Levin has precious little time. Many investors are still mad at him for leading the Time Inc. team that forged the debt-laden Warner transaction instead of accepting a $200-a-share buyout offer from Paramount Communications Inc. Chairman Martin S. Davis in 1989. Since then, the stock has split 4 for 1, but it has missed history's greatest bull market entirely, creeping along at a compounded annual growth rate of 3.8%, compared to 10.5% for the Standard & Poor's 500-stock index (charts, page 88). It doesn't help that the Turner deal dilutes the stock by 32%. "It's obscene," says Travelers Group Senior Vice-President for Investments Harvey P. Eisen. "I'm a simple guy. I want the stock to go up."

Cover Story

What Levin has done, however, is use the Turner deal to buy what might be his last chance to prove himself. He has doubled the bet on media concentration he placed in 1989 and convinced a broad group of constituents to trust him for at least a little longer.

Indeed, Levin is in a much stronger position than is commonly believed. If the deal closes in its current form, he will get direct voting control over the 9% of Time Warner that Malone would inherit in the stock swap. And for now, at least, Turner has pledged to vote his 10% with the board, which is largely friendly to Levin. Additional chunks of the stock are held by large investors such as Capital Group's Gordon Crawford or cable magnate Alan Gerry, who quietly support Levin's agenda. All told, 35% of the stock would end up in sympathetic hands.

RESULTS. Many investors grudgingly admit that Levin has assembled an impressive array of assets and that the operating results are improving steadily. They also think he's getting tougher. Wall Street responded vigorously to the Fuchs news by bidding the stock up almost two points, to 40, on Nov. 17. "Jerry's job has been in jeopardy since the day he took it," says one large institutional investor. "But shareholders like the direction he's moving."

As Time Warner's biggest cable competitor, Malone had to relinquish his vote to comply with ownership rules. But he did not have to give it to Levin. He did so to give the Time Warner chairman precisely the kind of clout he used against Fuchs. Malone contends it is essential to empower Levin with at least some of the authority enjoyed by moguls such as Viacom Inc. Chairman Sumner M. Redstone or News Corp. founder Rupert Murdoch. They own large, unassailable chunks of their companies and can therefore act freely. "What Jerry is

lacking is real power," says Malone. "And real power, as Mao said, flows from the muzzle of a gun. Jerry is a strong leader—he just hasn't had the power to exercise that leadership."

Malone, of course, is slippery. Just ask Barry Diller, who counted on the TCI chief's support for his 1993 Paramount bid, only to see Malone bolt in the middle. He could similarly foul up this deal. Turner is also mercurial. His pledge to vote with the board expires if he leaves Time Warner's employ—something he doesn't rule out. He notes that former Blockbuster Entertainment Corp. Chairman H. Wayne Huizenga became vice-chairman of Viacom after he sold out to Redstone in 1994, only to leave this fall. "I'll be vice-chairman, too," says Turner. "I could be [at Time Warner] a long time, or the same thing could happen to me."

Levin is clearly in a precarious situation. But the fact is, it is easiest for everyone if he succeeds. While it is often posited that Turner and Malone might gang up to sink Levin, the legal and logistical complications there are mind-boggling. If Levin succeeds and drives the stock to, say, 60, both Malone and Turner would be sitting on stakes worth $3 billion, tax free. Levin's unruly employees, many of them major shareholders, would also benefit. "What we need and want," says Semel, "is a strong Jerry Levin in New York."

GOOD FIT. Levin, who this summer had planned to sell his 18% Turner stake to address mounting shareholder concerns over Time Warner's $18 billion in debt, has been criticized for swinging this way, then that, on strategy. To many, this deal looks expedient—a temporary lifesaver for Levin.

Maybe. But on paper, it makes plenty of sense. Already it has given Levin the excuse to restructure the company to eliminate Time Warner's self-destructive fiefdoms. And it would provide enough girth in entertainment to satisfy shareholders irritated by Levin's persistent investments in cable telecommunications and interactivity. It would also dilute his most acerbic shareholder, Seagram Co.'s Edgar Bronfman Jr., who owns a 15% stake, while welcoming Turner and Malone, who are both cable boosters. Bronfman declined to comment.

Investors, who tend to look forward, are mostly just pleased Levin is taking action. They applauded Fuchs's ouster largely because it signaled a restructuring that will fundamentally alter the company, no matter what happens with the deal. It allowed Levin to fold the sprawling music company into the studio to create a single, $10 billion entertainment division that will be run by Daly and Semel. The removal of Fuchs, one of Time Warner's strongest executives, rocked the company and sent a shiver through a boardroom reeling from bad news. But it also ended a destructive feud between Fuchs and the two studio heads that had threatened indigestion as Time Warner moved to swallow Turner.

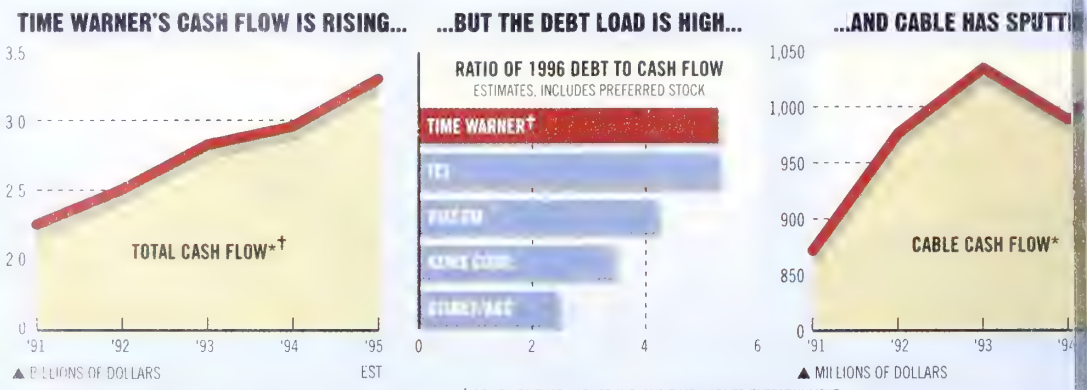
Levin plans to break the company into three major units:

The Turner deal buys L

Entertainment, News and Information, and Telecommuni tions (the cable business). The idea is to encourage the kin of synergies that have always eluded the current Time W ner. Levin insists that the Turner assets are such a good that they will "compel a kind of teamwork" among Ti Warner's famously fractious managers. Distributing Turne New Line films through Warner Bros. is a no-brainer, says. Ditto for putting Warner's new cartoons on Turne Cartoon Network or *Lois and Clark* reruns on TNT.

Segregating the entertainment and journalism propert into their own divisions, Levin says, will force top manage to encourage teamwork below them. Instead of battling H the movie studio will work with it—if only because they v have the same boss. To help that along, Levin has rework executive pay so that incentives encourage managers to be Wall Street's expectations while rewarding teamwork rath than just divisional performance.

Jerry Levin's Problem With The Street



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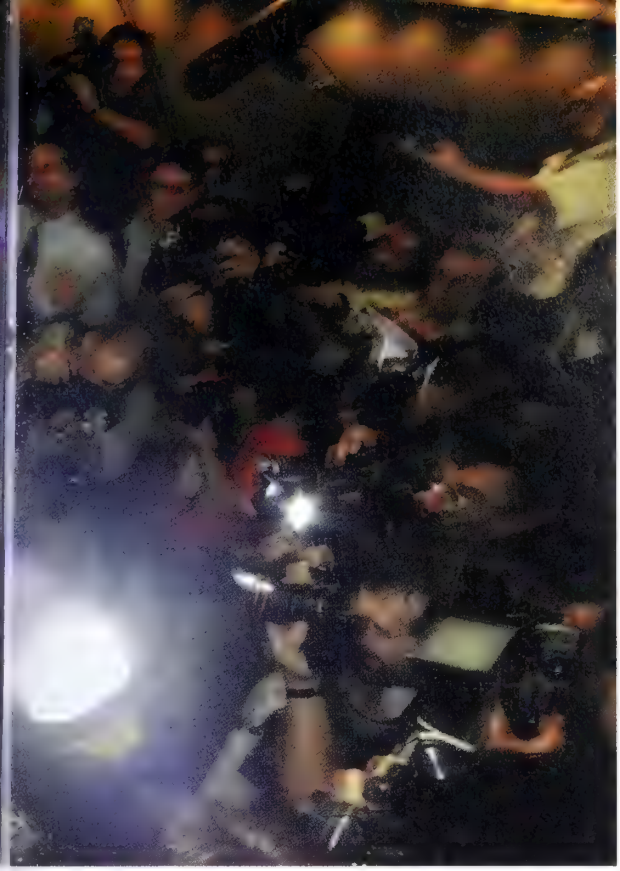


ODD COUPLE: *Turner says he won't challenge Levin for control of the company*

vin has also moved decisively to install new management at the publishing division, which has paid off in a 43% spike in cash flow since 1992. Wall Street's biggest beef has been Levin's stubborn insistence on adding more debt to build up Time Warner's cable business in the face of government-mandated rate cuts. Investors also distrust Levin's ability to lead, having watched him lurch from crisis to crisis.

Some of the heat Levin gets is unwarranted. The troublesome divisional structure, after all, was Ross's, and it was loaded from the start with ego-driven executives who would not have listened to anybody but the late chairman. Those executives have caused Levin no end of headaches by pushing their own agendas. And disciplining them is complicated by their strong individual results.

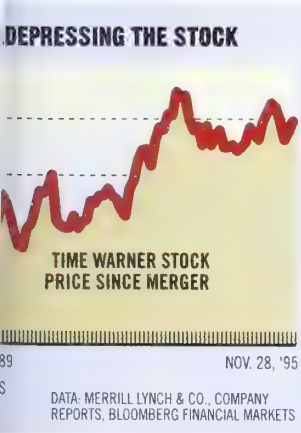
CABLE CASH. As for the cable strategy, consider this: Levin inherited the second-biggest cable company in the world. Selling it didn't make sense. It does require a lot of capital, but it also generates 31% of Time Warner's cash flow. When values were depressed during the doldrums of rate rollbacks, Levin bought 4 million more subscribers at bargain prices. Now, cable cash flows are coming back, and the industry might soon be deregulated. Rupert Murdoch, who doesn't have to worry much about his stock price, has become a billionaire using just such contrarian investing.

That said, however, Levin's history raises some serious questions about his ability to guide a ship as big as Time Warner. While he shares Murdoch's penchant for taking big risks, his track record on rewards is spotty. For one thing, Levin clearly should have moved faster to address sharehold-

ıcial opportunity to prove himself to wary investors

ıll of that is much easier said than done, of course, and be- ; investors will bid up Time Warner stock, Levin will e to finish his plan to spin the highly regulated, capital-in- sive cable systems into a self-financing entity. The idea is take the hefty cable leverage off Time Warner's debt- ked balance sheet. That will require Levin to cut a new l with U S West, which is threatening to use its stakes in studio, HBO, and the cable systems to thwart all of his nd plans. Most analysts expect Levin will do it. But given S West's leverage, it will likely end up with a sweet deal to ı half of the separate cable entity.

RVIVOR. Whether Levin is up to the task is the $7.5 billion stion. Reviewing his career for clues to future performance ds to the conclusion that he has often promised more than has delivered. A private, inscrutable man, even among nds, Levin's true motivations are hard to figure out. But one ng is certain: Despite his popular image, Levin hasn't survived Time Warner's jungles this long by hiding in a bunker. He is an inveterate risk-taker, with deceptive tenacity and an unusually strong sense of self-confidence. His great challenge will be shifting from jungle survivor to corporate leader.



It's not that Levin can't get Time Warner's operations to perform. Cash flow has grown at a steady, if unspectacular, 10%, compounded annually, since Levin took over. Le-

er concerns about debt. After Viacom's Redstone bought Paramount in 1994, he moved swiftly to jettison its valuable Madison Square Garden assets and its much smaller set of cable systems. To pare his debt, Levin sold stakes in the studio, HBO, and cable to U S West in 1993 for $2.5 billion. At the time, it looked as if the Baby Bell might help Time Warner get into the telephone business. But the benefits have been few, the entanglements many.

Levin has also yet to prove that he can command the respect of the corporation. The recent blowup in the record business might have been inevitable given the volatile egos involved. But when Atlantic Records chief Doug Morris assembled a team of managers and threatened to leave en masse unless Levin fired Morris' boss—Warner Music chief Bob Morgado—it was clear the chairman was lacking political clout. And even though Levin brought the matter under control by placing music under Semel and Daly, the turmoil has been damaging. "People are starting to ask whether there is going to be stability," says Ramon Lopez, head of Warner Music International.

Malone likens recent history at Time Warner to a feudal state. Speaking to analysts after the deal was announced, he said: "It's kind of like medieval England, where the barons really have all the power, the king is almost titular, and the subjects—i.e., the shareholders—don't even come into the equation." Malone suggests that with his new power base, Levin will be able to enforce his will upon the corporation. That, he figures, will in turn benefit shareholders.

But even Levin admits this is simplistic. He politely scoffs at the idea that his power might flow through TCI's wily chief executive. "Empowerment," he says, "comes when you believe in your ideas and have the force of your convictions." Levin thinks the Turner deal can earn him the respect he needs inside and outside the company: "I don't care what anybody says. It

Cover Story

THE VICTORS: *Warner Bros. chieftains Semel and Daly will now control music as well as film and TV*

is a very good idea for both companies."

Discovering how to lead will be crucial. But Levin rejects outright the notion that a media mogul must be flamboyant or charismatic. And he has plenty of supporters there. "He hasn't said he's going to start wearing lifts in his shoes or get a nose job," says longtime director Lawrence B. Buttenweiser, a Ross hire. "He's not fabulously attractive to the press. But that, in the final analysis, is not what counts."

What has counted in Levin's case is a tenacious belief in his own ideas. He has made up for his lack of charisma with stubbornness and staying power. He has a vast ability to absorb huge amounts of information and marshall facts to his cause. This has helped him sway his board to stick with his controversial cable strategy.

PRECOCIOUS. Levin's staunch self-confidence comes as a surprise to those used to his cranky, defensive public image. But it is almost as old as he is. "When I met Jerry, he was 16 going on 47," says Carol Levin, his first wife. (They divorced in 1970.) "He had this maturity and sense of self. But you could have a close conversation with him and still not know what was really on his mind."

Levin grew up in suburban Philadelphia. His grandpar-

ents on both sides were Jews w had fled persecution in East Europe. Jerry's father ran family's butter-and-egg busine His mother taught piano.

Jerry was smart and pre cious from the start. He happ went to sleep-over camp wh he was 5. Before he was 10, knew enough Hebrew to cond a service at the local synagog when the cantor failed to sh up one Saturday. He won a pu lic-speaking contest in junior hi and starred in high school pla

It has been widely report that Levin was a "biblical stu ies" major at Haverford Colle and therefore quite religious. fact, Haverford caused him question his strict Jewish upbri ing. He majored in biblical lite ture and became fascinated w the nexus between the Old a New Testaments. Since there w such a close connection, he could understand the animosity betwe the cultures. "My thesis was the continuity between the Jud and Christian traditions," Lev says. "I made a complete transf mation through college, comi out very spiritual, but areligiou

Levin was valedictorian at H verford and won honors for h thesis. On principle, though, he rejected the honors and burn all of his papers to make a philosophical statement that t work counted more. Despite such intellectual grandstanding, was not considered arrogant or nerdy. "He was very jo and gregarious for at least part of the day," says a roo mate, Brownlow Speer. "But at 8 p.m. or so he'd start stud ing, and you wouldn't see him."

THE VANQUISHED: *Levin flexed his muscles–and axed his longtime lieutenant, Fuchs*

Time Warner's ego-driven division heads have caused evin no end of headaches by pushing their own agendas

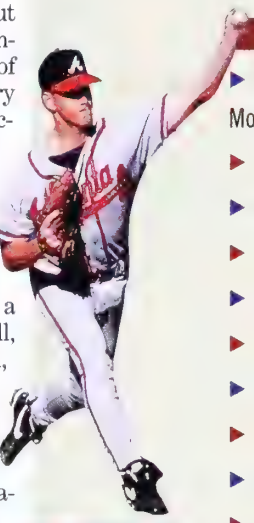
vin's personal discipline is legendary among colleagues. his appetite for information. He was the kind of kid who recite batting averages of members of the Philadelphia etics. A movie lover, he can still tell you which film won Best Picture Oscar for any year.

ch morning, after a half-hour jog at dawn, Levin reads newspapers, then moves on to the various media and en-inment trade journals, and finally turns to several news-rs and the wires. He sees every movie that comes out of ner Bros. and most of its TV shows. It's not unusual for and his second wife, Barbara, to devote an entire week-to movie-watching. He reads fiction before bed, getting by our or five hours of sleep a night.

ABOOS. Levin is also an ward fixture at the count-events in New York and ywood that swirl around entertainment executives. HBO exec still giggles about book party for *Sex*, Madon-controversial celebration of ything but the missionary ion. On arriving, the exec-e remembers turning to one actress bent over to ive a tattoo on her but-s. Up on pedestals, isvestites gyrated in ner corsets. Madonna her-was being led around on a h. In the middle of it all, bumped into Jerry Levin, e and looking vaguely be-ered. He had slipped into Warner Bros. baseball et for the occasion.

evin turns all this informa-into ideas, and ideas into tegies. His most notable mplishment at Time Inc., instance, was his decision 1975 to put the fledgling on a satellite. Nobody had thought of it, and move revolutionized cable work distribution. It also ured HBO's survival and ned Levin the in-house name "resident genius."

Levin's greatest bugaboo, vever, has been fighting the sistent charge that he's a ter strategist than manag-It began at Time Inc. during 1980s, when several high-file, Levin-sponsored projects nbed: Teletext, a service de-ned to deliver on-demand vs to TV via cable, ate up million before Time killed it. oscription TV lost as much as 0 million. Worse was a mo-development deal with Tri-



Star Pictures that left the amount of Time investment in the films uncapped. No matter how much a film ran over budget, Time was on the hook for a third of the cost.

For those and other reasons, Levin lost a prolonged battle for CEO of Time Inc. to Nicholas J. Nicholas Jr. And by the time the Warner deal came along in 1988, he was a lame-duck corporate strategist. Many wondered why he stuck around. Levin says that while he was indeed frustrated, he also felt that Time was on the brink of change and that he could influence it. "I had a sense of mission about Time Inc.," he says. "It was the kind of business that I thought had meaning, that satisfied my soul. I believed with a kind of messianic zeal that I could figure out what it

Levin's New, Improved Time Warner

What Time Warner and Turner combined will look like:

ENTERTAINMENT

- **WARNER BROS.**
  Movies, video, cartoons, television, DC Comics
- **WARNER MUSIC GROUP**
- **HOME BOX OFFICE**
- **TBS**
- **TURNER NETWORK TELEVISION**
- **CARTOON NETWORK**
- **CASTLE ROCK ENTERTAINMENT**
- **NEW LINE CINEMA**
- **HANNA-BARBERA CARTOONS**
- **ATLANTA BRAVES, HAWKS**

Total revenue	*$13.8 BILLION
Operating cash flow	*$1.96 BILLION

NEWS

- **CABLE NEWS NETWORK**
- **TIME INC.**
  Magazines including *Time, Sports Illustrated, People;* Books

Total revenue	*$4.45 BILLION
Operating cash flow	*$745 MILLION

CABLE

- **TIME WARNER CABLE**
  11 million subscribers

Total revenue	*$2.3 BILLION
Operating cash flow	*$1 BILLION

DATA: LEHMAN BROS. INC., BUSINESS WEEK

*1995 ESTIMATES

If

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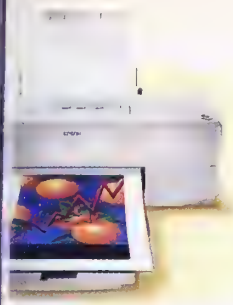
what you could print?



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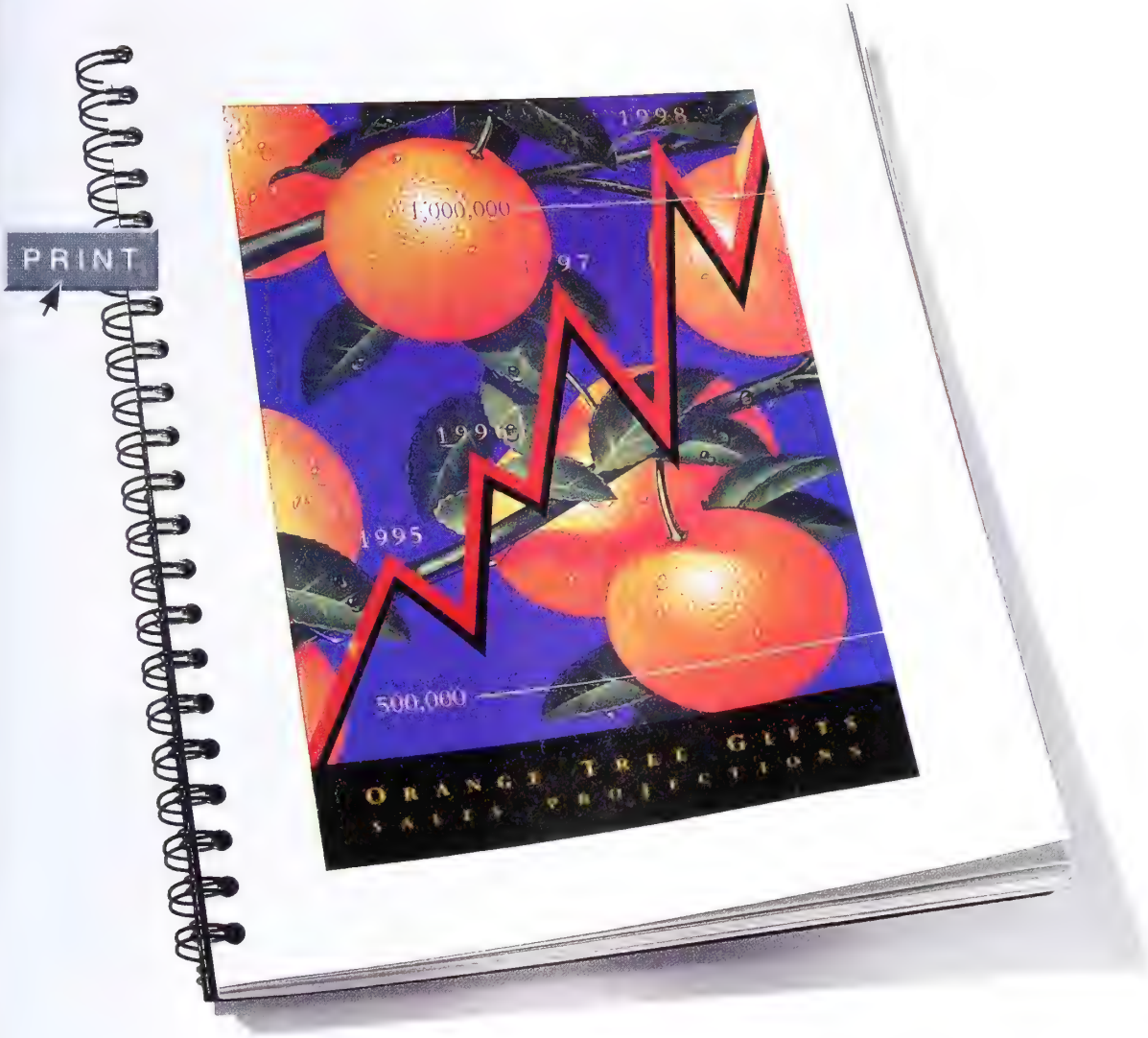

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YOU'VE GOT TO SEE IT IN EPSON COLOR.™

Levin knows schmoozing isn't his strong suit–and rejec the notion that a media mogul must be flamboyant

needed. But I didn't need to run the company to do that."

What came next is testament to Levin's arrogant sense of self. When Davis came along with his $200 offer, it sent Time into turmoil. Chairman J. Richard Munroe had already signed off on an attractive all-stock deal to purchase Warner. Davis' offer threatened to plunder it. "It was living each day with the survival of your company at stake," Levin says. "And I came to believe in my heart that I was basically in charge. No one else could handle the pressure particularly well. They were bouncing back and forth about what to do. I realized I had another facet to my complex personality, and it had to do with being steely in the face of pressure. I didn't translate it into, 'Ultimately, I'm gonna run this thing.' But it gave me significant reinforcement that I had to play an essential role going forward."

Cover Story

Nobody ever guessed Levin's role would expand as far as it did. But he insists this sense of manifest destiny informed a string of controversial moves that landed him in the chairman's seat. He participated (with Ross and Fuchs) in the ouster of Nicholas as co-CEO in 1991. And as Ross lay dying of prostate cancer in 1992, Levin forced the resignations of nine board members, ad several of his own. The news was announced the same Ross died. "Changing the board was maybe the toughest e rience of my life," Levin says. "Why is it O.K. to evaluate and fire them but you can't evaluate board members? Pe say this is roaring ambition and handpicking boards. But t not me. You don't have to believe that, but I know who and why I did it. We had to get our blue-chip status bac

Levin's tendency to explain his actions in broad philos cal terms puzzles colleagues. He doesn't revel in powe show it off, so friends try to believe him when he says his bition has a higher purpose. But they still wonder. "He do open up. He doesn't show his hand," says one son who worked closely with Levin until rece "Sometimes I think he's not political at all, o times I think he's so political you just can't tel

In the final analysis, Levin's tives don't much matter as lon he produces. But can he turn strategic vision for Turner f rhetoric to reality? It will t more than friendly, like-min shareholders. And it will requi brand of leadership that depe less on terror and more on inspi a large, complex organization.

It's hard to forget that Levin presided over a period in which highly profitable record group several industry legends, inclu Mo Ostin and Bob Krasnow. can't gloss over the fact he has nearly $100 million in severanc

▶ **TEEN PLAYER:** *A 16-year-old Levin at a summer camp*

▼ **STRATEGIST:** *With the late Steve Ross and then-Time Warner co-CEO Nicholas in 1989*

▼ **STAR STUDENT:** *At Haverford College in 1957*

▼ **ROOTING FOR A WINNER:** *With Ted and Jane at the 199 World Series in Atlanta*

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these and other executives, or promised $100 million in a pay package to Turner, or gave John Malone a sweetheart deal to buy into the Turner transaction. Levin explains all that as the unfortunate byproduct of achieving a greater good. Transforming Time Warner is simply a dirty job.

It's unlikely shareholders will buy such logic for long. It doesn't take an MBA to know that mergers rarely "compel" anything but headaches. It takes hard work, tough discipline, and deft management skill to cure them. Levin says there's already a new attitude at Time Warner, but what about this: The company's publishing division recently together with its cable unit to create an Internet service could be sold over cable modems. Since its selling point w be high-speed delivery of Internet fare, they thought to cal service Road Runner, after the Warner Bros. cartoon Trouble is, Warner Bros. owns that copyright and wouldn't it up. So the new consortium had to resort to a lame se choice, Line Runner.

Such foolishness at Time Warner has to end. Given Le stubborn track record, he may yet be the one to end it. he's still a long way from home.

By Michael Oneal in New

...BUT FIRST, A WORD FROM THE FTC

Time Warner CEO Gerald M. Levin may dream of running the world's largest media company. But first he has to win over five mandarins at the Federal Trade Commission. Led by ex-Georgetown University law professor Robert Pitofsky, the commission will have final say over his pending $7.5 billion merger with Turner Broadcasting System Inc.

It's unlikely the FTC will block the deal outright when it concludes its antitrust review by next spring. But it could attach significant strings that could complicate matters. And given that this deal has three parties—Time Warner, Turner, and Tele-Communications (TCI)—any major changes run the risk of scotching the whole thing. The possibilities: forcing the spin-off of some programming or cable assets or writing new rules to ensure that rivals get equal access at fair rates.

For now, Levin, a former antitrust lawyer himself, isn't sweating. "I don't think there is anything in the transaction that needs restructuring," he says. But FTC Chairman Pitofsky, a Clinton appointee, may not be so quick to agree. He has said that media mergers require extra scrutiny because industry concentration could shrink the available spectrum of viewpoints. And in an election year, those and other considerations may spark much debate. While Pitofsky won't discuss specifics, insiders say the Time Warner-TBS probe is a top priority.

MALONE'S DEAL. A new Time Warner-TBS (with TCI attached) worries trustbusters on several fronts. Theoretically, the three companies could dominate the market for both cable programming and distribution. They could use power in one area to block rivals in the other. Already, the companies separately control some of the cable industry's most popular channels, including HBO and CNN. And cable-TV systems owned by Time Warner and TCI serve almost half of all U.S. cable subscribers.

DEAL-BREAKER? *Media concentration worries Pitofsky*

The deal was structured with those concerns in mind. TCI is a factor because its Liberty Media Corp. unit owns 22% of Turner and can block any deal. The transaction is a stock swap, so Liberty will end up with 9% of Time Warner. Because that 9% ownership of a competitor would violate Federal Communications Commission rules as well as raise antitrust issues, TCI CEO John C. Malone agreed up front to cede his vote to Levin, becoming a passive investor.

The trouble is, Malone also got a special side deal that gives him a 20-year contract to carry CNN and other Turner shows at a discount. TCI maintains the discount is based on volume, since it's the No. 1 cable operator. Moreover, Time Warner and TBS say they're complying with a 1992 law requiring programmers owned by cable operators to give equal acces to other distributors.

NERVOUS RIVALS. Still, Malone is a lightning rod for regulators, and his deal has angered rival cable operators and phone companies. "It's a real concern because I'm building a network going head-to-head witl TCI," says James R. Young, general counsel for Bell Atlantic Corp., which is launching a video service next year The FTC has subpoenaed cable operators Comcast Corp. and Continental Cablevision, both Turner shareholders, for their views. They declined to comment for this story.

Competing programmers also fear that TCI and Time Warner cable systems could shun them in favor of their own networks. On Nov. 13, the Center for Media Education alerted the FTC to allegations that TCI had discouraged Children's Television Workshop from launching a new kids cable program after refusing to carry the show—a possible rival to TCI's part-owned Learning Channel. CTW had no comment, and TCI denied that the episode happened. But such complaints, focusing on TCI, might be moot if the FTC decides TCI is indeed a passive investor. The industry nervously awaits the next word from Washington—but no one is watching closer than Jerry Levin.

By Catherine Yang in Washington

FUNNY
THING
ABOUT
THE
FUTURE.

DEFENSE

THE PENTAGON GOES TO B-SCHOOL

High-tech delivery aims for the prowess of FedEx and UPS

In the aftermath of the Persian Gulf war, Desert Storm looked like a triumph of logistics as well as warfare. Moving 7 million tons of supplies for 550,000 troops in short order was a stunning—and much ballyhooed—feat. Only later did little-noticed Defense Dept. reviews reveal that the 1991 operation was flawed: Half of the 40,000 containers shipped to the desert, including $2.7 billion worth of spare parts, went unused. And soldiers didn't know what was in many of the containers. "The system broke," admits retired Lieutenant General William G. (Gus) Pagonis, the Army logistics chief who now handles distribution for Sears, Roebuck & Co.

As a belt-tightening Pentagon gears up to send 20,000 peacekeepers to Bosnia, it knows it can't afford such costly mistakes. So, like a corporation in dire financial straits, Defense is reengineering its $40 billion-a-year logistics sys The goal is to replace an extrava "just-in-case" delivery mentality w streamlined scheme similar to the " in-time" systems businesses us shrink inventories and speed delive

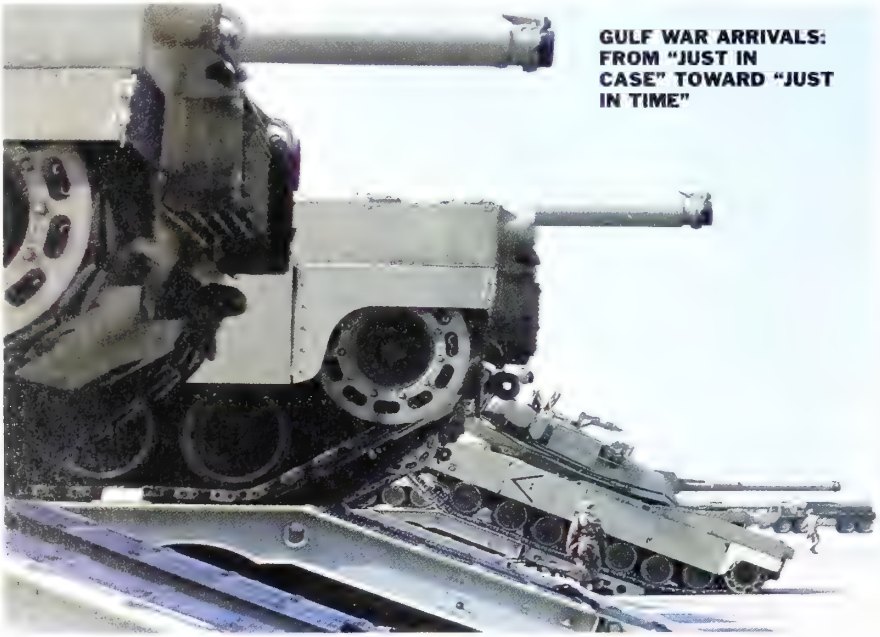
The Pentagon has achieved major ings since 1990. Inventories in infla adjusted 1995 dollars have dropped $104 billion in 1990 to $76 billion in and should plunge to $55 billion by To compensate for thinner reserves livery from factory to foxhole has speeded up by using bar codes, cards, radio tags, and databases to supplies. "We'll have piles of info tion instead of piles of stock," pre Colonel Merle D. Russ, a senior A logistics official.

The new system's first major chall is a tough one. The Balkans' harsh ters, rugged mountain terrain, and row, easily blocked roads thwarted moves of Nazi forces and supplies du World War II. U.S. officials know face risks. "Bosnia's really going t the testing ground," says Robert Kel top Army Material Command officia

The Pentagon's high-tech game pl on display at the 10 million-square- Defense Distribution Depot in Susu hanna, Pa., a showcase that trie mimic the distribution prowess of private carriers as Federal Exp Corp. and United Parcel Service. though the depot's workforce of 2,0 down 29% from Desert Storm days annual workload is up 25%, to 5.5 mi orders. And the depot has launche 24-hour emergency service simila one guaranteed by Caterpillar "We're willing to try just about thing," says Navy Captain Kenneth Wenzel, the depot's commander.

ROBOT BALLET. Computerization is to the efficiency drive. Bar-code label packages contain data on the cont and ultimate destination. In one $ million depot building the size of 40 f ball fields, scanners that read the la choreograph a mechanical ballet. "troupe": 790 V-shaped gull-wing c that run continuously on elevated c veyor belts and 1,150 larger flatbed c that move along a track on the grou

Scanners direct the carts to design ed points near loading docks. There, go going to, say, Germany, is consoli ed with larger items on pallets and into containers for shipping. Bar co are scanned again to create invent lists on credit-card-size laser cards. A 128-kilobyte radio-frequency tags w data identifying the shipment are on the containers. When the tags p sensors at a pier or railroad yard,



GULF WAR ARRIVALS: FROM "JUST IN CASE" TOWARD "JUST IN TIME"

MORE LOGIC TO LOGISTICS

With a Bosnia peace mission looming, defense planners are rushing to reengineer inventory tracking, speed deliveries, and reduce costs

	DESERT STORM FISCAL '91	BOSNIA FISCAL '95
ORDER-TO-DELIVERY TIME TO EUROPE*	25.5 days	7.1 days
INVENTORY TRACKING	Key-punched manifest	Bar-code reading, laser cards, radio-frequency tags
WEIGHING PACKAGES FOR SHIPPING	By hand	Automated
TRUCK MANAGEMENT AT THE DEPOT	By pencil and paper	By computer

*Average

DATA: DEFENSE DISTRIBUTION DEPOT, SUSQUEHANNA, PA.

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WHATEVER IT TAKES

signal is sent by satellite to a database in Cambridge, Mass., which officials at Susquehanna and in the field can access to monitor a shipment's progress.

The new operation is winning raves for efficiency. The container operation is run by just 52 employees who handled more than a million orders last year, for everything from computer chips to tank engines. And the depot has slashed average delivery time from 25.5 days during the gulf war to 5.4 days in September. John C. Tomaszewski, who runs Canon USA Inc.'s Jamesburg (N.J.) parts center, is amazed at the military depot's handling of such variably sized goods. "Not many companies run that gamut," he says, noting that his 51 workers ship only 200,000 orders a year.

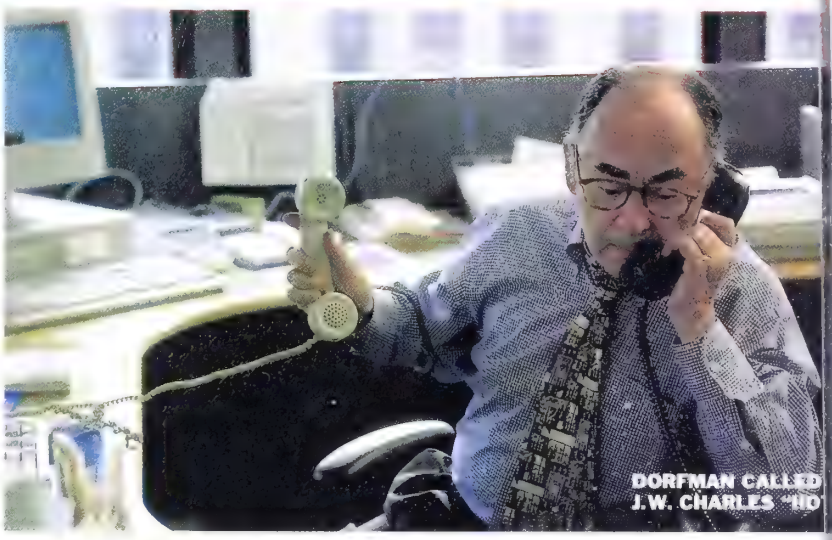
The system is winning plaudits in the field, too. In Bright Star, a recent military exercise in Egypt, the Pentagon used another innovation unavailable during Desert Storm: a $600,000 portable communications system that provides a sophisticated field office. Lieutenant Colonel Eric P. Simonsen says he used the new system to locate needed parts for an M1 Abrams tank at an Army base in Germany. Turnaround time: 24 hours. Desert Storm communications were so primitive, "I never would have been able to get through," he says.

SHAREWARE. But it's not enough to update technology. Like many a big business, the Pentagon also has to overhaul a bureaucratic culture that has failed to integrate its subsidiaries. Logistics officials want the three military services to have online access to each other's inventories, allowing most orders to be filled within a week—compared with up to three months from outside vendors. "We can save millions and millions," says Army Colonel Daniel L. Labin, deputy director of the Joint Defense Total Asset Visibility Office. But current Pentagon rules hamper interservice payments.

Another change is an emphasis on reducing maximum delivery time—much as FedEx aims for a 10:30 a.m. deadline. A 1994 Rand study showed the average parts order takes 30 days to deliver. But some take more than 100, prompting commanders to over-order to protect against shortages. The Army has set a 10-day ceiling for routine deliveries in the U.S. in '96, down from 30 last year.

Of course, there are limits to how much the military can—or should—imitate business: Mistakes could lead to spilled blood, not red ink. But for now, the Pentagon is betting that acting more like a corporation will make logistics more efficient in peace and more reliable in war. Indeed, in Bosnia, the brass hope to prove that Desert Storm's snafus are history in more ways than one.

By Stan Crock in Susquehanna, Pa.



DORFMAN CALLED J.W. CHARLES "HO

INVESTIGATIONS

MORE QUESTIONS FOR DAN DORFMAN

Why did he rely so often on an analyst with a lousy recor

On Nov. 23, 1994, financial commentator Dan Dorfman went on CNBC to pass on decidedly bearish advice. He told viewers of the cable channel that Douglas A. Kass, chief of research and institutional trading at J.W. Charles Securities Inc., believed that the market was a "turkey." Known as the "Bear of Boca"—J.W. Charles is located in Boca Raton, Fla.—Kass predicted that the Dow would slide from its current 3674 level to 3200 in six months and urged investors to "go for the gold."

The gold that glittered most, Dorfman said Kass was advising, was Vengold, a Vancouver (B.C.) concern then seeking to finance a stake in virgin Venezuelan and New Guinea gold plays. At 1 1/16 a share, said Dorfman, "it's a cheapie"—though he added that there were a "lot of people who would disagree vehemently with Kass." After the broadcast, Vengold rose to 2¼. Yet even though Dorfman cited the highly speculative issue again on Jan. 3 as one of Kass's top four stock picks for 1995, the shares eventually nosedived to about 1, their current trading level.

Vengold is far from the only Kass stock play cited by Dorfman that went sour. According to a BUSINESS WEEK analysis, from January, 1994, throu January, 1995, during a rising mar investors who faithfully followed Ka recommendations on Dorfman's s and in his USA *Today* column alm certainly lost more money than t gained. And stocks recommended Kass were frequently quoted by D man—some 25 stocks in a one-year riod (table). A review of the transcr of Dorfman's program and his colu from November, 1993, through Janu 1995, indicates that he cited Kass's s picks much more frequently than about any other analyst. (Kass's p have often been cited by other fin cial media, including two instances BUSINESS WEEK since 1993.)

CLOSE FRIENDS. Kass replies: "Any m ey manager, analyst, or other Wall St professional has his or her shares of w ners or losers, but the fact is *Financ World* independently ranked J.W. Cha as the best source of stock recommen tions during the time I was there."

But it's not just Kass's record a stock picker that raises questions ab Dorfman's judgment in citing him so ten. Kass also has a somewhat che ered background. Dorfman and Kas 46-year-old Wharton School alumnus

Thanks to Dorfman's coverage, Kass and J.W. Charles gained credibility and name recognition

er Nader's Raider, are close friends. relationship goes back to Dorf- s days as a *Wall Street Journal* re- er in the 1970s.

1992, before he joined J.W. Charles, was censured by the Securities & ange Commission for making false misleading statements in filings to agency in connection with a 1990 over bid. At that time, Kass headed wn New York money management DAK Securities. In August, 1993, months after Kass joined J.W. les, the Florida Securities Division ed him from directly supervising re- brokers, agency records show. nce 1988, according to court rds, Kass has been laboring r federal and New York state me tax liens that at times unted to seven figures. Docu- ts indicate liens totaling $4.8 on are in force. Kass says his situation is "irrelevant" to this y and attributes the liens to a d tax shelter set up by rles A. Atkins, who was con- ed of tax fraud in 1987. Kass he was simply a "victim." Charles Chairman and CEO shall T. Leeds says he would have hired Kass if he had wn about the tax liens.

TTERY. In June, 1995, J.W. rles was fined $5,000 and cen- d by the National Association ecurities Dealers as a result of gularities the NASD said Kass mitted in 1994 in allocating res of three initial public of- ngs underwritten by J.W. rles and Corporate Securities , its franchise brokerage affil- . Soon after the offerings, res of two of the companies re recommended by Kass in fman's *USA Today* column. s left J.W. Charles last Janu- to join Omega Advisors, a w York hedge fund.

Dorfman's dealings with J.W. arles went beyond mentioning firm's stock picks. On at least occasions, he addressed bro- s at the firm's "top-producer" ekends, including one in June, 4, at the posh Cheeca Lodge ort in the Florida Keys. Al- ugh Dorfman commands speak- fees of about $25,000, Leeds ists the firm picked up the tab y for travel and hotel expenses Dorfman and a girlfriend.

Dorfman frequently made flattering comments about J.W. Charles, Kass, and other analysts at the firm in his column and on TV. On Jan. 3, 1995, he called the firm's stock "as hot as the Florida sunshine."

There is no evidence that Dorfman has done anything illegal in his dealings with Kass and J.W. Charles. But his judgment can be questioned for relying so heavily on a source such as Kass with a lackluster investment record and a history of regulatory infractions. In its Nov. 6 issue, BUSINESS WEEK described a somewhat similar situation involving Dorfman's ties with Donald Kessler, a stock promoter and public relations consultant. Clients allegedly gave Kessler large payments for arranging meetings with Dorfman for his clients. Federal prosecutors and the SEC are currently investigating Dorfman and Kessler. Dorfman did not respond to requests for comment.

MEDIA SAVVY: *Kass gave good quotes*

Exposure from Dorfman broadcasts has been a boon to Kass and J.W. Charles, giving them credibility and name recognition. "We had a good relationship with Dorfman," says Joel E. Marks, the firm's vice-chairman and corporate finance chief. Thanks to Kass, he adds, "we got tremendous publicity."

AGGRESSIVE EXPANSION. Sources close to the company claim the relationship also made it easier for the firm to unload IPOs of doubtful quality. Over the past few years, according to Securities Data Co., J.W. Charles has posted one of the worst underwriting records of any U.S. brokerage firm. Out of 21 IPOs managed or co-managed by J.W. Charles/Corporate Securities Group Inc. since November, 1990, when those two firms merged and the current management took over, 15 are selling below the offering price, one is still trading at the offering price, and five are trading above the offering price.

That has not impeded an aggressive national expansion for J.W. Charles, which now has about 600 brokers. J.W. Charles has hired dozens of brokers who used to work at such marginal and now-defunct outfits as Blech & Co., a biotech stock firm, and F.N. Wolf & Co., a penny-stock promoter. Patricia A. Shub, a Fort Lauderdale (Fla.) attorney who has represented several J.W. Charles clients in cases against the firm and its brokers, says J.W. Charles "accepts some brokers who I wouldn't think would be acceptable to major wire houses."

But J.W. Charles is a notch above the penny-stock firms, many of whom have been put out of business by regulators. It employs a number of experienced brokers

KASS'S PICKS Recommendations by J.W. Charles research director Douglas Kass cited by Dan Dorfman on CNBC and in USA Today

DATE	COMPANY	PRICE	PRICE 11/28/95
BUY RECOMMENDATIONS			
5/12/94/CNBC	Benson Eyecare	7½	8¾
7/25/94/USA	Battle Mountain Gold	10¼	9
	Benson Eyecare	7⅛	8¾
	Grupo Tribasa	26¼	6¼
	Loewenstein Furniture†	8½	6 9/16
	Oneida	14¼	16⅞
	Oryx Technology	2 7/16	1 7/16
	Royal Oak	4⅛	4 1/16
	St. Joe Paper	59⅛	55½
	SigmaTron Intl	6⅜	7
	Vengold	3 21/64	1
11/23/94/CNBC	Battle Mountain Gold	10¼	9
	Newmont Mining	40	42⅞
	Placer Dome	20¼	25⅛
	Vengold	1 13/16	1
1/3/95/CNBC	Circus Circus	23⅛	25¼
	Florida East Coast	66	68½
	Oneida	13	16⅞
	Vengold	2⅛	1
SELL RECOMMENDATIONS			
1/18/94/CNBC	Charles Schwab	9 37/64	22¼
4/5/94/CNBC	Charles Schwab	8⅜	22⅝
	Merrill Lynch	35¾	54⅛
	Outback Steakhouse	26⅛	36½
	Primadonna	25¼	17½
	Snapple	22⅞	*
	Starbucks	24½	42 15/16
8/12/94/USA	Boston Chicken	19	35¾
10/24/94/CNBC	Snapple	14 1/16	*
11/2/94/CNBC	Snapple	14¼	*
11/23/94/CNBC	Hollywood Entertain.	16⅛	19¾
	Outback Steakhouse	24¾	36½
	Starbucks	26¼	42 15/16
	Williams-Sonoma	28¾	20¼

*Snapple agreed to be acquired by Quaker Oats at $14 share on 11/2/94. †Merged with Winston Furniture 12/16/94. All prices are split-adjusted.

DATA: *CNBC TRANSCRIPTS; USA TODAY*, BLOOMBERG FINANCIAL MARKETS

who serve an affluent "Gold Coast" clientele. It is a member firm of the New York Stock Exchange, the largest one in South Florida. J.W. Charles/CSG's underwritings are for several dollars a share, not a few pennies. Instead of being mere shells, the newly public companies it promotes generally can claim some semblance of a business. By complying with SEC disclosure and reporting requirements, these underwritings can escape regulatory scrutiny.

REGRETS? *J.W. Charles CEO Leeds now doubts Kass*

The firm is 49% owned by a unit of privately held Gilman Paper Co. But last April, J.W. Charles agreed to repurchase Gilman's stake over several years. Gilman adviser Neal Soss, a former CS First Boston chief economist and aide to former Federal Reserve Board chairman Paul Volcker, served from September, 1994, to early 1995 as a J. W. Charles director. Soss says Gilman decided its investment in J.W. Charles no longer fit its "strategic focus."

LOST MONEY. At least some of J.W. Charles's success in recent years stemmed from Kass. Leeds hired Kass in April, 1993, four months after he left First Albany Corp., where he was research director, to put the firm on the map as a retail and institutional powerhouse. Kass is known as being media savvy, with a gift for snappy quotes.

Leeds acknowledges that he was aware of Kass's earlier problems with the SEC when he hired him. In 1990, Dorfman reported that Kass and some associates planned to take over H. H. Robertson Co., a building-components supplier then based in Pittsburgh. The SEC alleged that Kass made false and misleading statements, mainly about his intentions and his funding sources. Though Kass, in SEC filings, said he intended to make purchases of Robertson stock to further the takeover, the SEC said he later failed to disclose that he actually planned to sell his shares instead of taking over the company. Dorfman wrote further stories about the Kass move, some quoting Kass, which likely helped push up Robertson's stock. But the Kass bid faltered. Dorfman wrote that Kass couldn't raise the cash. Kass dropped his bid when Robertson acquired another company.

Kass says he "lost substantial sums of money" on the transactions and "neither the timing nor the price of any of my sales or purchases of that company's stock had anything to do with Mr. Dorfman." Besides censuring Kass, the SEC revoked his firm's broker-dealer registration. Kass said he consented to the order rather than spend the time and money to fight it.

Kass began raising J.W. Charles's local profile soon after he arrived in Boca. In a September, 1993, interview with a local reporter, he promised that the firm wouldn't follow "small, crappy, illiquid companies." Yet many of the stocks Kass recommended on Dorfman's program and in his column were small and illiquid. These included three J. W. Charles IPOs. One was RailAmerica Inc., which rose and remained above its offering price, probably in part because it was recommended at least once on the Dorfman program. The Alexandria (Va.) short-line hauler, was introduce Dorfman by Donald Kessler. The o was taken public in November, 19 3½ a share and is now selling at 3

NASD CHARGES. Other J.W. Charles recommended by Kass in Dorfman' umn didn't do as well. On July 25, Dorfman mentioned a long list of buy picks. One was Oryx Techno Corp., a struggling maker of comp components whose offering price w a share. Another was SigmaTron I national, a computer circuit boards ufacturer whose IPO price was 7. stocks have languished since they offered to the public earlier in While a bullish mention by Dor gave a momentary boost to Sigma which is still trading at its offering Oryx has plummeted and is now tr at 1⅝ a share. In its April, 1994, off prospectus, Oryx said it was losing ey and that growth prospects were ited for ceramic components for h drive manufacturers, its main produ

The NASD alleged that when Oryx SigmaTron, along with Gunther Int tional, a mail-sorting equipment m went public, Kass engaged in "free ing"—holding back IPO shares to all them to selected accounts. That these investors the opportunit make a quick profit if they chos due to the fact that SigmaTron Gunther traded at a premium mediately after the offering. O those favored accounts was th Perkins Partners Ltd., whose pr pal, Marc Perkins, is said to close friend of Kass. For these lations, J.W. Charles was censu and fined $5,000. Perkins, bought shares of Gunther and maTron, according to the NASD, also charged with free-riding, sured, and fined $2,500. Perkins he and Kass "made a mista adding that "it was a clerical er According to Marilyn Davis, a N district director, a settlement Kass is pending. "I categori deny having ever engaged in f riding," Kass says.

Joel Marks insists the share most companies J.W. Charles a taken public are merely "under ued." Still, he acknowledges that firm's poor record has caused i shift its strategy. J.W. Charles, says, is getting out of the "pu venture-capital business."

Kass's non-IPO picks on D man's show were also less t stellar. He did make a few g calls, notably Snapple Bevera In Apr. 5, 1994, he said inves

J.W. Charles Deals: A Losing Game

Initial public offerings managed or co-managed by J.W. Charles since merger with Corporate Securities Group

COMPANY	DATE IPO OFFERED	PRICE	PRICE 11/28/95
SUPREMA SPECIALTIES	4/25/91	3½	4¼
FRENCHTEX	8/8/91	4¼	1½
ALL AMERICAN SEMICONDUCTOR	6/18/92	1	2 7/16
PEACHTREE FIBEROPTICS	10/8/92	3 1/16	1/16
RAILAMERICA[1]	11/9/92	3½	3¼
COMPUTER OUTSOURCING SVCS.	1/20/93	5¼	4
VOYAGEUR FLORIDA MUNI FUND	2/19/93	15	12⅞
GREG MANNING AUCTIONS	5/14/93	3⅛	2 1/16
RENT-WAY	8/12/93	4 15/16	10
OF COUNSEL ENTERPRISES[2]	11/15/93	3¼	15/16
GUNTHER INTERNATIONAL	12/21/93	5	3⅛
SIGMATRON INTERNATIONAL[3]	2/9/94	7	7
ORYX TECHNOLOGY[3]	4/6/94	3½	1 7/16
GREENSTONE INDUSTRIES	7/20/94	5 5/16	3½
AMERICA'S GROWTH FUND	8/19/94	5	2½
AASCHE TRANSPORTATION SVCS.	9/23/94	7	5⅛
FOREIGN & COLONIAL EME FUND	10/28/94	15	10⅛
SINGING MACHINE	11/10/94	4 7/8	⅛
AMPACE	2/16/95	4¼	3⅛
WESTERN POWER & EQUIP.	6/13/95	6¼	4⅛
BALLANTYNE OF OMAHA	9/6/95	6¼	7⅛

[1] Recommended on Dorfman Reports of 8/31/94 [2] Renamed Co-Counsel
[3] Recommended in Dorfman's *USA TODAY* column of 7/25/94
All prices are split-adjusted.

DATA SECURITIES DATA CO., BLOOMBERG FINANCIAL MARKETS

sell the stock when the shares were g at 22⅝ on a split-adjusted basis. ıv. 2, 1994, Snapple agreed to be ac- by Quaker Oats Co. at $14 a share. other recommendations were less ent. On at least three occasions in Kass and his colleagues panned es Schwab on Dorfman when the was trading at 10 or less on a split- ed basis. Schwab closed at 22⅝ on 28. On July 25, 1994, Dorfman re- l Kass's buy recommendations on 10 companies in *USA Today*. All but three are selling below their closing prices on July 22, the day before the column appeared. Most of Kass's other buys that did rise in value, such as Circus Circus Enterprises Inc. and Florida East Coast Industries Inc. (CNBC, Jan. 3, 1995), have vastly underperformed the Standard & Poor's 500-stock index.

On Jan. 3, 1995, three months after a J.W. Charles analyst urged investors to sell all brokerage stocks, Dorfman on CNBC gave a a special accolade to J.W. Charles itself. He noted that there was a "very thin float in this stock, so be careful." But he then praised the firm for its "high return on equity, 25%, a strong balance sheet, big earnings growth forecast." Like the many Kass picks publicized by Dorfman, that was not great advice. Since then, J.W. Charles stock has gone nowhere.

By Phillip L. Zweig in New York, with Gail DeGeorge in Miami and Michael Schroeder in Washington

SONAL FINANCE

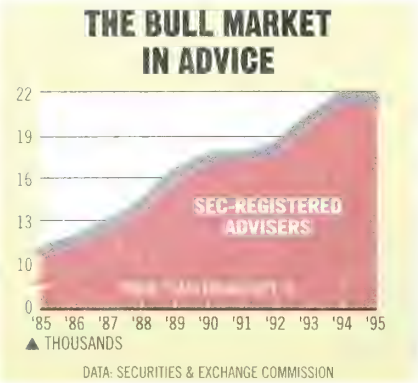
AN 21,500 INVESTMENT DVISERS BE WRONG?

but watch out. Almost anyone can hang out a shingle

ooking for a new business opportunity? Want an exciting new career in the financial services industhat can make you rich as you help le achieve their dreams and aspiıns? Become a registered investment ser (RIA). You don't need an MBA or ollege degree. You don't have to onstrate any knowledge of investts. Just fill out the 12-page regison form, pay a one-time $150 filing o the Securities & Exchange Comsion—and you're an RIA.

here's no such ad, but there might vell be. "As long as you haven't comed a crime, the only requirement ıat you can fog a mirror," says Lee wford, president of Crawford Capital ıagement Inc., a San Diego investıt adviser. Perhaps you need to be e to become an RIA, but not to rein one: Only recently did the SEC ge the list of "inactive" advisers, which lowered the head count for the first time in years. Even after dropping 1,000 names, the number has still more than doubled since 1985, to 21,500.

At a time when more and more people are seeking help with their investments—401(k) allocations, rollover pension money, children's college funds



—regulators are concerned about such abuses as undisclosed fee-splitting, excessive commissions, and giving poor advice. "I worry that we can't keep up with this kind of growth in the number of investment advisers," says Barry P. Barbash, director of the SEC's Investment Management Div. While the SEC may investigate specific complaints against advisers, the routine inspections that can uncover problems are virtually nil: With staffing levels so low, an adviser will have an SEC inspection on average once every 44 years.

DEMAND SKYROCKETS. Most states regulate investment advisers in varying degrees of intensity, and they make inspections with somewhat greater frequency. State regulators say one of their biggest problems is ferreting out unregistered advisers—and getting them under the regulatory umbrella or out of the business. Last year, for instance, the Arizona Corporation Commission denied Robert S. Burgman an investment adviser's license. The commission said Burgman, who ran more than $9 million in mutual-fund portfolios, failed to disclose he had lost his securities license a few years earlier for selling "unsuitable investments." Says Dee R. Harris, the director of the commission's securities division: "If you were thrown out of the securities business, you don't belong in the advisory business, either."

The advisers' rolls are growing largely because the barriers to entry are so low. The bare bones: a PC, a phone, maybe some business cards, and enough money to pay the registration fees. The ability to link up with discount brokerage networks that provide stocks and mutual funds at low cost makes it easy for advisers to hang out a shingle. Many newly registered advisers are also stockbrokers, CPAs, or life-insurance salesmen, and if they retain those licenses, they also must abide by the regulations of those professions.

The demand for advice is rocketing. "Investment advisers are not just for old rich people anymore," says Philip A. Feigen, Colorado's securities administrator. For instance, many executives forced out in corporate restructurings walk away with six-figure lump-sum

payments and need help in nurturing their nest eggs. And even those who could manage their money often don't want to. "Many clients are finance professionals at General Motors, and they're smart enough to do this themselves," says James B. Kruzan of Investment Management & Research Inc. in Clarkston, Mich. Kruzan manages clients' 401(k) plans. They give him authority to move funds around their pension plan.

So far, there's no hard evidence that the rapid growth in investment advisers has brought more abuses. Regulators note that most of the new firms charge fees based on the client's assets rather than commissions. Under such an arrangement, the clients and advisers are on the same side of the table. So there's no incentive for advisers to churn accounts or sell such high-commission investments as limited partnerships—common sources of complaints.

Of course, even honest advisers can ply bad advice. Ralph Lambiase, director of the securities division of the Connecticut Banking Dept., warns that advisers' exams required in many states test knowledge of legal and ethical issues, not investment acumen. "I don't know if you can test for that," says Lambiase. Some states will waive tests for advisers who have passed the Chartered Financial Analyst exam, which does require knowledge of the portfolio management process. But grasp of the theory does not always translate into successful practice, either.

Regulators say that poor performance might be the source of complaints in the future, but they hear none of it now. That's because in a bull market, nearly everyone makes some money, and many investors don't realize they've had bad advice until the markets fall.

TIRED COPS: *The SEC's Barbash is swamped*

DRUTHERS. In the meanwhile, regulators are trying to make do with what limited resources they have. The SEC's Barbash, for instance, is concentrating on the 8,000 or so advisers who have custody of client assets or discretionary power over the clients' assets. Among the things they're looking for are conflicts of interest and advisers favoring one client over another in allocating securities. In addition, Ba directed mutual-fund i tors to check up on ad units that are attached t companies.

"By and large, it's bunch of crooks out there Garland H. Sharp III, ch aminer of Virginia's inves adviser audit unit. But says seldom does an ad firm get a clean bill of Most get "deficiency le outlining corrective steps taken. Still, it may be six before a deficient firm return visit.

If some legislators their druthers, there'll repeat visit at all. Repr tative Jack Fields (R-Tex introduced a bill that eliminate all state secu regulation. Senator Phil Gram Tex.), has proposed legislation would get the SEC out of the regu of smaller advisory firms and leav to the states. Maureen Thompson, islative adviser for the North A can Securities Administrators Assn Congress might settle on a divis duties—the SEC overseeing large visers, the states, the smaller one

Clearly, the mood in Congress ward less regulation. So in the en investors themselves who will have police their own advisers.

By Jeffrey M. Lade in New

HIRING AN ADVISER? TAKE THIS ADVICE

If you're in the market for an investment adviser, here are some guidelines to help you make a wise choice:

Credentials. The adviser has to give clients a copy of Part II of the Securities & Exchange Commission Form ADV, which outlines the adviser's services, fees, investments, and educational background. Ask for Part I as well: That addresses the adviser's legal and regulatory history. If your state requires advisers to register, then ask for state filings, too. You may want to call universities to confirm degrees, professional associations to attest to membership, and former employers to verify work experience.

Performance. Past performance is no predictor of future returns, but it's instructive nonetheless. How long is the track record, and how steady? Are there big swings from quarter to quarter or year to year, and if so, can you live with that kind of volatility? Be sure the performance shown is from the kind of portfolio you would choose. If you're a conservative investor, ask to examine the performance of some conservatively run accounts.

Interview. How well did the adviser interview you? Do you think he or she asked the right questions—especially about your income, net worth, financial goals, and risk tolerance—to come up with an appropriate investment portfolio?

Costs. How is the adviser to be paid: through commissions on inves ment products you purchase, a fee based on the assets under management, or a combination of the two? Whatever method you choose, the arrangement should be clearly spelled out.

Control. It's O. K. to give an adviser discretion to trade stocks or move money from mutual fund to mutual fund within an account. But never give the adviser the power t withdraw money from your account The account should be in your nam no one else's.

Record keeping. Make sure that you get copies of all transactions from the custodian of the investme account, usually a brokerage firm. Use that to check the performance reports you get from the investme adviser.

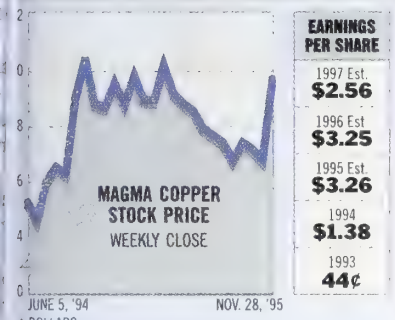
GENE G. MARCIAL

HE GLEAM T MAGMA COPPER

or Magma Copper (MCU), a major U.S. producer, earnings estimates analysts are apt to swing widely—pending mainly on the prognosis for pper prices. But a recent flurry of acity in Magma stock has little do with rnings or prices. And a lot to do ith takeover talk. In two weeks, ares have leaped from 16 to 21.

Several institutional investors own

RIVALS COVET ITS RICH MINES



DATA: BLOOMBERG FINANCIAL MARKETS, FIRST CALL CORP.

ig blocks: Wall Street's Warburg Pinus controls 36%, and Idaho potato ing John Simplot has been buying. lis John R. Simplot Trust acquired a .2% stake on Sept. 15. The plot thickns when one considers that Simplot lso owns 5% of ASARCO, one of the vorld's top copper producers—and one f three rumored Magma suitors. The thers: Freeport McMoRan, a huge ource of copper, gold, and silver, and Minerals & Resources (Minorco), a uxembourg mining outfit.

Buyout talk stems from Warburg's ecent move to unload assets in one f its venture funds, including intersts in Intuit, Advo Systems, SHL Systemhouse—recently acquired by MCI Communications—and Magma.

One investment banker says ASARCO, Freeport McMoRan, and Minorco are bidding for most, if not all, of Warburg's stake. "Warburg in this instance s a financially motivated seller," he says. Warburg consultant Donald Donahue is Magma's chairman, and two Warburg managing partners, John Vogelstein and Christopher Brody, sit on Magma's board.

The investment banker puts Magma's buyout value at 30 to 35 a share. Part of the appeal, he says, is its mines in Peru and Arizona. The company operates America's largest copper-smelting and -refining complex, he adds. Magma is set for the long haul, notes one analyst, "with production likely to skyrocket in the next few years."

ASARCO has mines in Peru and Arizona, too. Adding Magma's Peruvian operations would enhance the bottom line for ASARCO, says one analyst.

Observers say 1996 will be a transition year for Magma, with gold and copper from its Nevada mine poised to come on stream. "Magma has made significant strides in reducing costs, expanding production, and acquiring development properties," ways David Neuhaus of J.P. Morgan Securities.

THIS SLOT MACHINE COULD PAY OFF

Heading for the exits in hotels and casinos is WMS Industries (WMS). Instead, it will focus on video games, lotteries, slot machines, and pinball. Why? Some reckon that Viacom Chairman Sumner Redstone, who owns 25% of WMS, might be inclined to take a larger stake, if not a controlling one, if WMS were rid of such businesses. The stock is on the ropes: After a high of 24¼ in early February, it has slumped to 17.

Before the end of its fiscal year in June, look for WMS to sell its interest in three Puerto Rico hotel-casinos, worth $75 million to $100 million, says a pro who owns a big stake in the company. Not only may WMS attract Redstone's eye but it will also gain resources to beef up its presence in the high-margin slot-machine business.

"Response among the Las Vegas crowd to the newly introduced WMS slot machines has been tremendous," says the pro, who notes that the company has an $18 million order backlog. One machine costs $5,000 to $6,000.

The slot-machine market is dominated by International Gaming Technology. But WMS hopes to snare 30% of the business in 24 months, he says. By 1997, the WMS product could add $150 million to $200 million to annual revenues, he figures. The company posted sales of $385 million in fiscal 1995, when earnings fell to 80¢ a share, down from $1.19 the year before.

WMS President Neil Nicastro declined to make projections. Neither would he comment on Redstone's interest. But he thinks analysts' estimates of $1.15 to $1.25 in fiscal 1996 are "reasonable," along with projections of $1.50 to $2 for fiscal 1997, mainly because of the slot machines' bright promise.

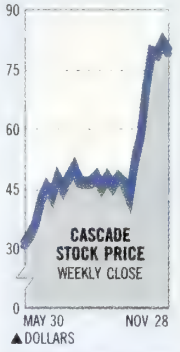
CASCADE: TOO QUICK ON THE TRIGGER?

Aping corporate insiders may sometimes be hazardous to your finances. Consider the insiders at Cascade Communications (CSCC), which designs and manufactures a line of "wide-area network" computer switches. You should be shorting or bailing out, judging from officers' behavior. Chairman Victoria Brown dumped 25,238 shares at 62 apiece on Oct. 27, reducing her holding to zilch. President Daniel Smith sold 22,500 shares at 61 a few days later. The stock closed at 80½ on Nov. 28. The company said Brown couldn't be reached by phone, and Smith didn't return calls. But another top officer says these sales were part of a "portfolio diversification."

The sell-offs may have been premature, argue some pros. They now think Cascade will soon be acquired by Cisco Systems, a cash-rich maker of internetworking systems. One analyst thinks Cisco will offer 100 to 110 for Cascade.

"There's a lot of synergy between the two companies," says a California money manager who has been snapping up some shares. Cascade's switches allow computer users to direct and manage their communications across networks. Its gear is used by regional phone companies and competitive access providers. Cascade started making money last year on sales of $50.1 million, up from 1993 sales of $700,000.

CISCO MAY COME SHOPPING SOON



DATA BLOOMBERG FINANCIAL MARKETS

Cascade's products dovetail with Cisco's business. Cisco, with revenues of $1.2 billion last year, offers a line of routers and switches that manage communications among computer networks.

If Cisco is to remain the dominant vendor in fast-growing networking, says one analyst, it needs to acquire companies like Cascade. Cascade and Cisco declined comment.

CLEARER SKIES: *Allen has produce Delta's first profits since 1990*

AIRLINES

IT HURTS SO GOOD AT DELTA

CEO Allen's fierce cost-cutting is showing results

Many numbers have floated across Ronald W. Allen's desk since he announced Delta Airlines Inc.'s aggressive cost-cutting program in April, 1994. There's the $1.6 billion in savings his restructuring teams have identified. There's the $340 million he still hopes to coax from the pilots' union. There are 17,391 axed jobs. Then, there's the figure he saw in late October on Delta's quarterly earnings report. Net income was $201 million—precisely the amount Delta's cost cuts saved for the quarter. "I had to go back and check the numbers," Allen says. "I did. It was very interesting and very satisfying."

Add it up, and Allen is within reach of the number that has consumed Delta for the last 19 months: 7.5. Critics and competitors scoffed when Allen announced an effort to cut costs so deeply that Delta would spend only 7.5¢ per airplane seat per mile of flight by June, 1997. That 23% reduction could make Delta the second-lowest-cost major carrier after Southwest Airlines Co. Halfway to the target date, Allen is ahead of schedule. And he hasn't just been taking a cleaver to Delta: He has redrawn its route map, formed innovative partnerships, and revamped everything from baggage-handling to maintenance. He has also turned Delta's woeful European operations into a moneymaker. If he could only win a deal from the Air Line Pilots Assn., Allen could close the books on the first phase of Delta's rebuilding effort, dubbed Leadership 7.5.

Delta certainly needed a new flight plan. The very attributes the airline prided itself on—lifetime employment, high pay, lush in-flight services, and a blanket-the-territory route map—w plainly out of step in the deregulat era. "They had to make decisions t ran contrary to a lot of their hist culture, and past practices," says Dor J. Carty, president of American Airli Inc. "These were difficult decisions management to make, ones they wo only make knowing they had no choi

Buffeted by a combination of terri industry economics and its own bl ders, Delta had no choice. "We were t ing about survival," says Allen, a year-old company lifer who became in 1987. The company had not turne profit since 1990. Only troubled US Group Inc. operated less efficiently t Delta's 9.76¢ per mile. And the $600 lion Delta had spent in 1991 to buy American World Airways Inc.'s Euro an routes had yielded nothing but ink—$1.2 billion in total losses in th years. Meanwhile, Delta's flabby w invited cut-rate ValuJet Airlines Inc. start up and attack Delta's lucrat routes to Florida and the Northeast.

DROUGHT RELIEF. The picture is a different today. Delta is flying at about 8.4¢ a mile. Allen still must t $480 million in costs to reach his $ billion goal, but he insists that most that will come from a new pilots' c tract. With its workforce down 2

DELTA IS TRIMMING BACK...

MARKETING Capping commissions to travel agents, emphasizing sales to bigger accounts. Annual saving: $400 million-plus.

ONBOARD SERVICES Changing food service, reducing staff. Annual saving: $310 million.

PERSONNEL Outsourcing some work, slashing jobs 23%. Annual saving: $300 million.

MAINTENANCE Reducing inventory, instituting new work arrangements. Annual saving: $290 million.

PILOTS No progress yet on the effort to wring $340 million in concessions out of the Air Line Pilots Assn. However, both sides have publicly committed themselves to avoiding a strike or lockout.

:a now makes money when its es fly above 59.3% full, vs. the 67% . it needed a year ago. Even the bled European operations are kick- in, turning in a $7 million annual it for the first time. Thanks in part he industry's upswing, Delta earned 3 million in the fiscal year ended e 30—its first profit in five years.

letting to this point seemed almost ossible not long ago. The target of billion in savings was so far away : the details-oriented Allen couldn't vide specifics about how to achieve it. ead, he set up 11 teams and charged h with reaching broad cost-cutting ls. Among them: $400 million from keting, $300 million from layoffs, $310 million from onboard services. ranslated to operations, those num- s are making for some significant sometimes controversial changes. hnical experts in hydraulics, metal- king, avionics, and other trades were ed to design cross-functional work ms—changes that put many of them of jobs. Another controversial meas- : saving $80 million a year by putting ap on travel-agent commissions. The ve risked alienating the source of re than half the carrier's bookings. t Delta weathered a boycott threat l made the cutback stick. "What y've done with travel agents is truly rageous," says Lewis Jordan, presi- nt of ValuJet Airlines. Delta says there has been no impact on bookings.

With much of the rough cutting complete, Allen is now focusing on making the changes last. He has created five new groups with such clunky-sounding assignments as creating more cross-functional work and improving asset utilization. If the talk of cross-functionality and long-range planning sounds like consultant's bafflegab, consider how it's working in practice at Delta's $30 million control center for operations that opened in late October. From a "bridge" overlooking five jumbo screens, directors watch as computers track the movement of every Delta flight worldwide. Working from consoles within earshot of the bridge are meteorologists, traffic planners, mechanics, and even reservations specialists.

VEGAS JACKPOT. When the Salt Lake City airport was snowed in recently, Delta's traffic planners were all set to reroute a plane to Bozeman, Mont. But within seconds, the destination was changed to Las Vegas when a reservations manager in the center noted that Vegas was the final destination for all but four of the 48 passengers on board.

With domestic cost-cutting ahead of schedule, Allen has more time to focus on the knotty problem of Delta's European operations. He's making the best of a bad situation: a system with a space-squeezed hub at Frankfurt and no landing rights at London's Heathrow International Airport. To compensate, Delta has negotiated 11 code-sharing arrangements—buying blocks of seats and flying its customers on other carriers' planes. The deals with carriers in Europe, Asia, and Latin America have enabled Delta to cut 14 unprofitable routes yet still bring more feeder traffic into Frankfurt and into Delta's Atlanta base. One code-sharing partnership with Virgin Atlantic Airways Ltd. gives Delta some Heathrow access. But Allen paid dearly—$200 million a year—for 22% of the seats on Virgin flights to seven U.S. cities.

The European operations could soon get an enormous boost if the U.S. Transportation Dept. grants an antitrust exemption to Delta's partnerships with three European carriers: Swissair, Austrian Airlines, and Sabena. That would let Delta go beyond code-sharing to cooperate on pricing, marketing, and scheduling in a way that is currently prohibited. There's already a precedent: Northwest Airlines Inc.'s deal with KLM Royal Dutch Airlines. "The antitrust immunity is very important to their ability to build on the benefits Delta has already gotten from code-sharing," says Daniel M. Kasper, a partner at Coopers & Lybrand.

The one area of Leadership 7.5 that shows little progress is pilot talks. Company officials note that Delta pilots earn $309 for every hour that they're flying, second only to USAir's $312. And Delta pilots fly only 49.4 hours a month, fewer than at any other carrier but American. Delta says it won't accept the combination of high pay and low productivity.

The two sides are currently moving in opposite directions. In October, the Air Line Pilots rescinded its earlier agreement to forgo a 2% pay raise after Delta gave huge bonuses to top executives. Delta further enraged pilots by revealing plans to turn over flights on some routes to Atlantic Southeast Airlines Inc., a regional carrier in which Delta holds a 24% stake.

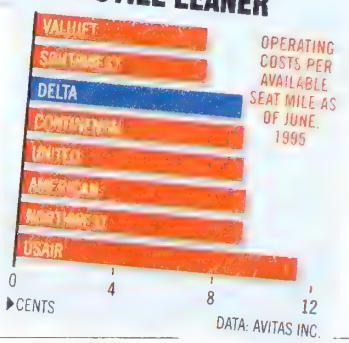
The pilots are also concerned that Delta's strategy of cutting unprofitable routes means furloughed pilots won't get their jobs back and others could lose them. "Delta is trying to shrink to profitability," complains Cameron Foster, a pilot on the negotiating team.

More than 500 pilots turned out for Delta's annual meeting in November and cheered as Delta Captain Bill Brown, head of the local ALPA unit, vowed to reject any contract not offering "value for value." Still, Delta's pilots have said they won't strike. And Foster says a deal could happen if there's movement on key issues that would return furloughed pilots to work, such as a plan to fly smaller jets to preserve service on lightly traveled routes.

Allen wants a deal with the pilots, but he won't budge from the $340 million figure. As for the pilots' value-for-value rhetoric: "If you say, 'We give you a dollar, and we take a dollar back,' there's no gain in that," he says. Deals along those lines, Allen figures, won't get him any closer to his magic numbers.

By David Greising in Atlanta

...BUT SOME RIVALS ARE STILL LEANER



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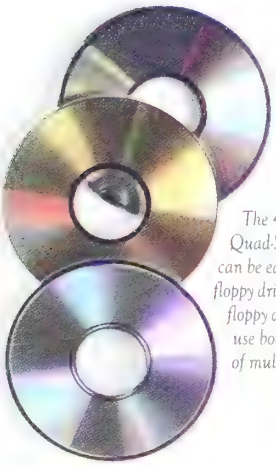

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ECOMMUNICATIONS

VALL STREET TIPS TS HAT TO CAPs

:egulation or no, ıpetitive-access viders are in catbird seat

ong-distance carriers and local phone monopolies are fighting ▮an epic battle in hington right now a telecom bill being ked out in a joint ıte-House subcomee. But while the ts agonize over r fate in a newly ɜgulated industry, group of telecom panies is relaxing. matter how the ɜlation goes—even doesn't pass this r—the 50 or so ne companies known competitive-access providers" (CAPS) guaranteed winners.

'hese outfits have spent the past ıde worming their way through state ılatory mazes in order to do what long-distance and cable companies only dream of: compete with the ɔy Bells and GTE Corp. Today, they the only alternative to local phone ıopolies—and, therefore, the perfect tner or acquisition target for anylooking to get into the business. ıis sector of the industry is unique," s Stuart P. Conrad, telecom analyst h C. J. Lawrence. "Legislation, techɔgy, and the current competitive enɔnment are totally in its favor."

Who are these guys? Well, they n't household names—MFS Commuations Co., the biggest CAP, is exted to ring up sales of only $570 mil- ı this year. The others will bring in the rest of the $1.2 billion in local-calling revenues that doesn't go to the monopolies. That's only a tiny slice of the $90 billion local-calling pie, but it represents the crème de la crème of customers—corporations that use CAPs to circumvent local phone companies.

Today, about half the states allow this sort of competition, and the CAPs have been steadily building state-of-the-art phone networks in any city where they can. That hasn't been cheap: Huge capital expenditures and heavy borrowing have kept all of the major publicly traded CAPs in the red. But the group is beginning to show quarterly improvements in cash flow. Telecom industry analysts estimate that MFS, the largest of the CAPs, could show positive cash flow by the first quarter of 1996. No. 2 IntelCom Group Inc. could reach the same point by 1997.

Profits, though, are not the reason the CAPs are in the telecom catbird seat. For any company looking to enter the local phone market fast—AT&T, say, or Time Warner Inc., or a Baby Bell that wants to expand outside its region—it's a lot easier to buy a company with networks in place than to try and build its own. It can take 18 months and at least $100 million to wire up business customers in just one city. MCI Communications Corp., for example, has budgeted $2 billion to build local networks in 20 cities by 2000. MFS, which already has networks in 49 cities, has a market capitalization of about $3 billion. It doesn't take a mathematical genius to figure out it's cheaper to buy than build.

TIRE-KICKERS. The CAPs have done the math. "We might see a lot of convergence of the market, where we might be acquired," says MFS president Royce J. Holland. "Over the last few years we have had a number of parties come in, kick tires, and make offers." There are likely to be a lot more tire-kickers since MFS's majority shareholder, Peter Kiewit Sons' Inc., spun off its 69% stake to Kiewit shareholders on Sept. 30. MFS's stock rose all summer and hit 46½ in November from a 52-week low of 28¾ in May.

But the CAPs aren't just takeover bait. An alternative phone company could become a "carrier's carrier," selling local service on a wholesale basis to long-distance companies or others. The companies can then resell the service directly to customers. That's how MCI and other long-distance competitors started out, by buying and then reselling service from AT&T. Now, AT&T might prefer reselling service purchased from Intermedia Communications of Florida Inc., with networks in six of Florida's largest cities, than sending monthly checks to BellSouth Corp., which is sure to be one of its new competitors in the long-distance market.

The CAPs could also go beyond the

Buying a CAP would be by far the easiest way for a Baby Bell to invade a local phone market

corporate market. That is where Teleport Communications Group and its cable owners—Tele-Communications, Cox Communications, Comcast, and Continental Cablevision—are headed. TCI, Cox, and Comcast have a joint venture with Sprint Corp. to sell long-distance, cable, and local service to consumers. "Once the network is built, it can handle all kinds of traffic," says Robert Annunziata, Teleport's president. "Why not offer residential?"

Well, because it's wildly expensive to extend service to every home and business in a region. Certainly, the biggest challenge all the CAPs have had is meeting their cash requirements. Regular visits to the debt markets are a given—MFS raised $320 million through a preferred stock offering in the second quarter and then filed a shelf registration in November for the sale of an additional $1 billion in debt or equity to cover capital expenditures, which have been running about $100 million per quarter.

The market, however, seems b awfully forgiving. IntelCom ran it severe cash crunch early this yea its stock plunged from 16¾ a year g 6⅝ in May. J. Shelby Bryan, a form vestment banker w Morgan Stanley & C was promptly recr as IntelCom's pres Bryan shored u balance sheet w $300 million pr placement in Au By the middl November, Intel stock price had cli to 10, and several lysts have issued ratings.

So while Washi wrestles with the f print, Wall Stree given the CAPs the position in the new telecom wor might be worth ing some of names.

By Catherine in New York, wit reau reports

The Little Phone Companies that Can

Key Competitive-Access Providers

MFS COMMUNICATIONS (Omaha) MFS is by far the largest competitive-access provider, with networks in 49 U.S. cities. Its coverage makes it well-positioned for the coming battle for local service. MFS is also an obvious partner for a long-distance carrier looking to get into local markets fast.

INTELCOM GROUP (Denver) IntelCom is just emerging from a severe cash crunch and a management shakeup. But analysts figure that with 32 networks, which are mostly in the West, plus new financing and a low stock price, the company could be a great acquisition target.

TELEPORT COMMUNICATIONS GROUP (New York) Owned by four cable TV operators, TCG is the local linchpin in the joint venture between three of those owners—TCI, Comcast, and Cox—and Sprint to provide a nationwide package of long-distance, cable, and local services.

INTERMEDIA COMMUNICATIONS OF FLORIDA (Tampa) Intermedia focuses on the booming Southeast, with networks in eight cities and two more under construction. Six of its networks are in Florida, giving Intermedia a head start when that state opens its local market to all comers on Jan. 1.

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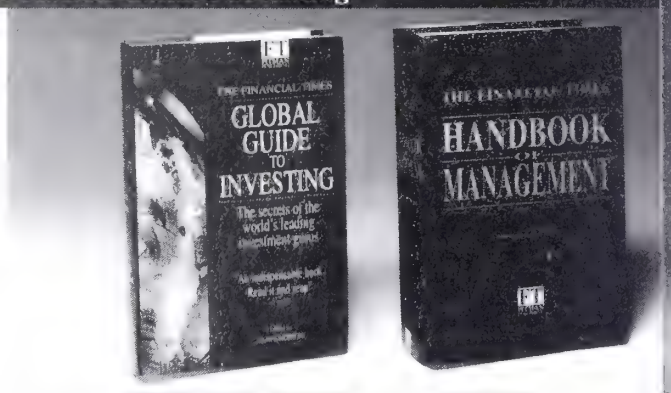

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OSPACE

HE NEXT SPACE ACE: SNAPSHOTS?

ing sharper images of earth could bring in billions

pace may be the final frontier, but it has not exactly been ld mine. Aside one big success—lite communica—making money he cosmos has as hard as find- life on Mars. mes to manufac- superpure drugs her materials in gravity have fiz- Bold plans to loft sts into orbit n't gotten off the nd. Even the et-launch market rginal at best. The history of busi- in space shows that "the best way ake a small fortune is to start out a large fortune," says John E. Pike, tor of the Federation of American ntists' Space Policy Project.

TION AIDS. Now, though, compa- are betting they've finally found a eymaker—taking pictures of earth space. Today, space images gen- e only about $100 million in annual nue. But by using sharper cameras getting pictures to customers in s instead of weeks, these new com- es hope to rake in collectively be- tween $2 billion and $10 billion a year. "The future of this is enormous," says William Folchi, vice-president for marketing and sales at Space Imaging in Thornton, Colo.

Folchi and his rivals expect to win over real estate agents, cities, utilities, foreign nations, farmers (page 112), and others who now use pictures taken from airplanes, low-resolution space images, or ordinary maps. They also hope to create a vast consumer market, selling images for everything from computer games to vacation planning. "Imagery could become as ubiquitous as road maps," predicts Douglas B. Gerull, co-founder and CEO of Longmont (Colo.) startup EarthWatch Inc. "Before you go to Vail, you could sit down at your PC and call up a picture of the ski hills."

By next spring, Gerull's company plans to launch the world's first imaging satellite that's not government-supported. It will be capable of 3-meter resolution: Each dot in an image will represent a 3-meter square on earth. Within two years, EarthWatch, Space Imaging, and Orbital Imaging in Fairfax, Va., aim to loft even sharper eyes with a view of earth once seen only by spy satellites. Their cameras will have 1-meter resolution, sharp enough to see cars from about 400 miles up. Most will circle the planet north to south and snap shots as the earth spins beneath them.

It promises to be a costly space race. Lockheed Martin Corp. and other partners backing Space Imaging plan to spend more than $500 million to build, launch, and process data from their 1,800-pound satellite. EarthWatch hopes to fashion smaller, cheaper craft using the Star Wars experience of founder Walter Scott, who helped devise the Brilliant Pebbles scheme for shooting down missiles from space. EarthWatch has $50 million from venture capitalists and partners, including Hitachi Ltd. and Ball Corp. It's seeking $150 million more to launch a second 3-meter-resolution satellite and a pair of the sharper, 1-meter type.

The third major U.S. entrant, Orbital Imaging Corp., has already encountered financing difficulties, having lost original partners Litton Industries Inc. and Tra-

ZOOMING IN ON KOBE
The current generation of satellite photos provides 10-meter resolution of the quake-ravaged city (left). Coming 1-meter systems (simulated, right) will offer far more detail

harp Eyes Space

e are some remote- sing satellite jects in the works d their sharpness, resolution. Each in a one-meter olution image presents a one-meter are on earth.

SPACE IMAGING *Lockheed Martin, Raytheon's E-Systems, Mitsubishi*
Over $500 million effort to launch 1-meter-resolution camera in 1997.

EARTHWATCH *Partners include Ball Aerospace, Hitachi, Nuova Telespazio*
$200 million plan to launch 3-meter satellites in 1996 and two 1-meter birds, starting in 1997.

ORBITAL IMAGING *A unit of Orbital Sciences*
$100 million plan to launch 1-meter craft in 1997, another in 1999, and a radarsat in 2001.

RESOURCE21 *Partners include Boeing and Pioneer Hi-Bred International*
Seeking financing for a $400 million, multi-satellite, 10-meter-or-better system, mainly for farming.

FRANCE Spending $3 billion for five commercial SPOT satellites, most with 10-meter resolution. Three of them already launched.

RUSSIA Trying to sell 2-meter images from its spy satellites.

INDIA U.S. firm EOSAT markets 32-meter-resolution images from Indian Remote Sensing satellites.

cor Inc.'s GDE Systems. It hopes to get by with $100 million from parent Orbital Sciences Corp. All this cash is for an unproven market: "This is not a business for the meek," says Dick Fox, owner of consulting firm ACC Inc. in Mansfield, Ill., which is using remote imagery for such things as farming.

Other satellite companies aren't the only rivals. Although aircraft aren't practical for all photographic purposes, they can fly under clouds and obtain images that are sharper than the sharpest ones from satellites. In addition, governments such as France, India, Russia, and Canada are stepping up efforts to sell satellite images. In November, the Pentagon and the CIA unveiled a plan to use spy satellites for environmental monitoring. While company execs discount the threat, that could make the U. S. government a competitor, too, at least in one market segment. "There will be tremendous overcapacity," predicts Ted Nanz, president of the North American subsidiary of French commercial satellite-imaging company SPOT Image. "No more than one or two of the new companies will be successful."

ULTRASMOOTH. The Clinton Administration helped unleash this free-for-all in March, 1994, by letting companies sell satellite images with 1-meter resolution, down from 3 meters previously. The move has been controversial: Analysts expect that some of the startups' biggest customers will be foreign intelligence agencies. But the U. S. satellite startups say it makes no sense to restrict their sales of high-resolution images since they are available elsewhere anyway, from nations such as Russia. "The cat is out of the bag," argues EarthWatch's Gerull. The one exception is that the government can close the shutter of the proposed U. S. systems if national security is threatened.

The sharp-eyed satellites on the launchpad encompass a range of advances, from high-capacity memory chips that store images until they can be radioed to earth, to high-quality telescopic optics. One camera mirror that Eastman Kodak Co. is building for Space Imaging will be so smooth that if it were 100 miles across, the biggest bump would be only eight-tenths of an inch high. It's fashioned from a new glass developed by Corning Inc. and Kodak that will reduce distortions from expansion and contraction as the satellite speeds from cold darkness to searing sunlight and back. "We're sanding on the edge of physics," says Phil Walker, manager of commercial remote-sensing systems at Kodak.

The images have a ready market in the booming field of high-tech mapmaking. Makers of so-called geographic information systems (GIS) sell more than $2 billion a year in hardware, software, and special-purpose maps that, say, show water-runoff patterns during storms in Irving, Tex., or growth of subdivisions in Phoenix. "GIS people are crying for more data," says EarthWatch's Gerull.

Those powerful trends—and the myriad uses of space imagery—convinced Lockheed CEO Daniel M. Tellep. After a presentation in December, 1993, recalls one participant, "he turned to the and said, 'Have you got your ch book? I'm ready to sign up.'" Now company is projecting revenues of million per year once its bird is in

The jury is still out on whe Lockheed's big-budget approach is best—and, for that matter, on many companies the nascent marke support. But it looks as though at one or two will reap profits by g where few companies have gone be

By John Carey in Washin

TILLING THE SOIL BY SATELLITE

Last summer, one of Jim Williams' corn fields was attacked by the dreaded corn borer. In the past, the Cisco (Ill.) farmer would have sprayed the whole 80-acre field. This time, he turned to aerial photos to spot the actual crop damage. Then, using computer-drawn maps and steering with the help of a global positioning satellite (GPS) receiver, he guided the chemical sprayer just to the 12 acres that were infested. He saved nearly $1,000—and pumped fewer poisons onto the land.

Williams is a pioneer of "precision farming." The basic idea is to till the earth almost foot by foot instead of field by field. Global positioning satellites help make that possible: A GPS receiver mounted on a tractor records the tractor's exact geographic coordinates from moment to moment. The location data is matched with data from a yield monitor, which measures the weight and moisture of the grain as it is harvested, producing a map of the field's performance. If the yield is poor in a dry spot, the farmer can douse it more heavily next season.

FOILING PHYLLOXERA. For images of their fields, high-tech farmers such as Williams use shots from planes rather than satellite pictures. But that may change when better satellite images are available. Images taken at different wavelengths of light can spot plants stressed by drought, nutrient deficiencies, or pests far earlier than the naked eye. California vineyards have teamed with NASA in a test project that ha enabled them to spot grapevines h by the phylloxera louse as much a a year before the insect's depredations become apparent on the ground. Resource21, a startup in Gulfport, Miss., hopes to launch sa ellites designed primarily for agricultural imagery. Partners include

TRACTOR BEAMS: *An onboard GPS linkup*

Boeing Co. and Pioneer Hi-Bred International Inc.

On the ground, meanwhile, new equipment is rapidly becoming ava able. In July, Deere & Co. in Molir Ill., introduced a $7,000 yield monitor and GPS system—the first in a planned line of precision-farming gear. "In 10 years, every farmer w be using this technology," predicts Theodore Coffelt, director of sales for TRIFID Corp., a mapping compa ny in St. Louis. That may be a bit too optimistic, but there's no question that a revolution is slowly tak ing place down on the farm.

By John Carey in Washingt

Told me he needed more

space."

"uh-oh."

Needs to feel more

power and control

in his life."

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ISAL NETWORK SNIFF OUT END OR FOE

RITY SYSTEMS CAN access to a building by zing a person's finger- oice, or retina. Tomor- robot guards may simply a visitor's body odor— a superkeen nose in- d by two scientists from University.

emistry Dept. Chairman d Walt and John S. r, a professor of neuro- ce, have patented a sys- hat combines fiber-optic rs and so-called neural- ork software to identify us smells. It points the to artificial noses much sensitive than even the e variety. Such sniffers t detect oil leaks or di- se diseases based on bolic changes in a pa- 's breath or sweat.

fts already holds several ts on single-minded fiber ors. The tip of these s is smeared with a dye reacts to one specific tance when zapped by flowing out from the . The new system comes r to the versatility of noses. It has an array of sensors that detect dif- t chemicals. By analyz- the combined reaction of ndle of 10 sensors, the al network could I. D. up million compounds. Fat- bundles and better dyes t pick up scents no bio- al nose can sniff. The De- e Dept. has given the scientists $2.25 million to tune their invention.

WELL-TEMPERED CERAMICS

TEMPERED GLASS CAN TAKE A BEATING THAT WOULD PULverize ordinary glass. In the same vein, tempered ceramics could be the ticket to a new family of materials.

Today's metal-ceramic composites, which can withstand temperatures that would weaken or melt ordinary metals, have a serious limitation: They chip and crack easily. Glassmakers take care of that problem through tempering, which induces compressive stresses to make the surface extra hard. Stephen L. Sass, a professor of materials science at Cornell University, wondered whether engineering ceramics might also benefit from similar tempering techniques.

After a year of work, his research team recently unveiled the first tempered metal-ceramic parts. They're produced by packing alumina-ceramic tubes with nickel-aluminate powder, using heat and pressure to get the ceramic powder to stick to the tube's inside surface. Then the tube is baked to burn off the oxygen in the aluminate—and that, in turn, reduces the volume of the aluminate and tries to pull the tube inward. But the tube can't shrink. The strains created by the opposing forces hardens the tube's outer surface. Since the same technique could also temper other shapes, a jet-engine manufacturer is now talking with Sass about making experimental parts.

COMPUTER TRANSLATORS BETTER GETTING

COMPUTER PROGRAMS FOR translating one language into another still pale next to a good human translator. But a system being developed at the State University of New York at Buffalo could lift machine translation to new levels of sophistication. The software not only renders Chinese ideograms into English but also revises its translation as it gains a better understanding of the text.

What's more, the program remembers and can answer questions. If a Chinese report stated that the country produced 650,000 personal computers in 1994, the program could later answer the question, how many PCs were made in China last year? The program's smarts come from Cassie, an artificial intelligence (AI) package that Buffalo has been perfecting for three decades. Min-Hung Liao, a Chinese PhD candidate in computer science and linguistics, was excited by its potential for translation. Cassie's AI foundation is crucial for Chinese, Liao notes, because the order of words is much looser than in English, so the computer often needs to understand the context of a statement in order to come up with the best translation.

INNOVATIONS

■ Sound travels "backwards" at the University of Paris, where researchers are developing a better way to probe solids with ultrasonic signals. If they scan an airplane wing, say, and an echo comes back from a defect, a so-called acoustic time-reversal mirror generates an "antisignal" that travels back to its source. Repeating this interactive procedure quickly pinpoints the defect's location and size. Another potential application: finding and destroying kidney stones. The backwards signals could be progressively stepped up in power until a kidney stone disintegrates.

■ Rats injected with just 150 molecules of a steroid called pregnenolone sulfate score higher on memory tests than their untreated brethren, according to the Veterans Administration Medical Center in St. Louis. That makes pregnenolone the most effective memory enhancer found to date—if you happen to be a rat.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwdec@businessweek.com

RISING STARS

FORD'S GLOBAL GLADIATOR

Jacques Nasser starts to overhaul the way it makes cars

Growing up in Melbourne, Australia, Ford's Jacques A. Nasser used to compete with his younger brother Jamie to see who could identify more of the cars zooming past their home. Jacques, a car buff even then, would usually win. If he didn't, he took it hard. "I'd be shattered when I didn't know one," he admits.

Today, Nasser's lifelong passion for cars and competition is being put to its ultimate test. The 47-year-old group vice-president is charged with overhauling the way Ford Motor Co. makes cars worldwide. The immense job makes him chief mechanic in Chairman Alexander J. Trotman's vast global reorganization, Ford 2000. It also puts him on the spot to fix Ford's biggest problem: spending too much money and time to bring out new cars. "That's a demon Ford has been battling for years," says Lehman Brothers analyst Joseph Phillippi.

ON TRACK. Indeed, the huge cost of developing and launching the new Taurus, Escort, and F-series pickup sent Ford's earnings plunging 68% in the third quarter. And Nasser says Ford faces more "short-term pain" as it swallows the cost of remaking 40% of its U.S. product line and one-third of its European lineup over the next year. "If we want to realize our vision of being the leading auto company in the world," he says, "then we have to lead in product development." If Nasser succeeds, many inside Ford say he will be on track to become CEO. Nasser, who friends say has always been in a rush to reach the top, claims he never even thinks about that: "I'm too busy."

Debugging Ford's product development is as complicated as it looks, Nasser says, but "the payoff is huge." Ford can shave billions off its $8 billion annual product-development costs, he says, by designing cars that can be sold around the world. Rather than create numerous small cars, for example, Ford will develop one small-car chassis and alter its styling to suit different countries.

Since August, Nasser has wiped out Ford's far-flung regional product studios and moved more than 15,000 employees into five global product-development centers—four in Dearborn, Mich., and a fifth split between Dunton, England, and Merkenich, Germany. The centers will shepherd cars fr drawing board to showroom, so de opers live with their vehicles as l as they're on the market. By 19 Nasser expects the centers to cut velopment time from 37 months to months, equal to industry leader Toy Motor Corp. Key steps will be reduc cars' complexity and eliminating red dant parts. He also has a plan to be pace the flow of new models worldw Analysts estimate Ford is shooting fo startling 30% reduction in costs.

Critics, however, say the global proach requires a dizzyingly comp bureaucracy and will produce bl "McFords" pleasing to no one. Wo big savings won't materialize beca cars meant to be sold globally will h to meet the world's toughest envir mental and safety rules. "They are c ating a huge organization that is caus chaos," scoffs a rival. But the stoc pugnacious Nasser plays unwavering z for Trotman's global sion. "The auto ind try is a worldwide terprise," he argu "not simply a natio or regional business.

> "This is a very competitive business. You either get efficient or you lose," says Nasser, whose nickname is Jac the Knife

LONG TRIP. Nasser, w speaks four languag and fancies three-b ton suits tailored Savile Row, knows few things about t global village. Born Lebanon and raised Australia, he worked for Ford on continents since 19 when he graduat from the Royal M bourne Institute Technology. "Jac w very ambitious, and knew if he was goi to be a player, he h to get out of Australi says David Blackh who started at Ford Australia the same d as Nasser.

The first stop Nasser's around-the-world tour was the home office in Dearborn, where went in 1973 to work out the finances exporting 18-wheelers to Australia. H mastery of detail quickly caught the e of Philip Caldwell, then head of tru operations, who went on to run t whole company. "Jac figured out t best way to get visibility with Phil Ca well was to control the numbers," reca Blackhall, now with Ford's ad agen

BREITLING
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RONOMAT

ı time when instruments routinely monitor ıt data at Mach 2 miles above the earth, y continue improving mechanical ɔnographs? Precisely because there's more ime than technology! Just ask BREITLING, world's leading maker of time ruments for aviation professionals. Its icately beautiful movements and lovingly ıd-polished watchcases put technological gress in a broader, more rewarding spective.

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After Nasser returned to Australia, his steady ascent earned him postings in the Philippines, Japan, Venezuela, Mexico, South Africa, and Brazil. He became known as a hard-charger who bruised some egos in his climb but whose financial skills could not be faulted. But Nasser is loath to be typed as a "finance guy"—Detroit code for a drab, bloodless executive. He is a connoisseur of antique watches and classic architecture—and he especially loves fast cars. Among his treasures are a 1970 Aston Martin DBS, and one of the world's only right-hand-drive 1966 Mustang convertibles. And they're not just showpieces: "He took me riding in the Aston Martin one night in London and scared the hell out of me," recalls Adrian Brien, a friend and Ford dealer in Australia.

When Nasser became head of Ford of Australia in 1990, his first act was to fire his company chauffeur so he could drive himself to work—sometimes on an Italian motorcycle. Now back in Dearborn, he has a weekly reservation on Ford's test track and is obsessed with driving the whole lineup. He once picked up a friend, Bryan Cooper, in a Ford-designed taxi. Shrugs Cooper: "He's what we call a 'petrol-head' in Australia."

JAZZY. But running Ford of Australia was no joyride. The operation was in shambles, outflanked by Toyota and General Motors Corp. Nasser laid off one-third of the workforce and won back the Ford Falcon's No. 1 sales crown with a memorable ad campaign, jazzed-up features, and an extended warranty. He repeated that performance on a far larger scale in 1993 at Ford of Europe, where he cut 10,000 jobs. His slash-and-

NASSER'S PLAN TO STREAMLINE FORD'S PRODUCT DEVELOPMENT

- Realize billions of dollars in savings through global design and engineering of new cars and trucks
- Use the same chassis and basic parts (steering wheels, horns) in more models, while tailoring styling to suit tastes around the world
- Reduce the cost of developing a vehicle by an estimated 30%
- Keep products fresh by bringing cars from drawing board to showroom in an average of 24 months, down from Ford's current average of 37 months
- Balance the product-development workload so fewer new cars come out at once
- Take $700 out of the cost of manufacturing each vehicle by reducing the number of parts and squeezing lower prices from suppliers

turn record has won him the nick
"Jac the Knife," which he doesn't
"This is a very competitive bus
You either get efficient or you los

Jac the Knife found himself o
wrong end of a gun in 1985 when
rived to save Ford's troubled pl
Argentina as that country plunge
political and economic chaos. W
days, armed workers seized the
ry—and Nasser. "The first per
called was my boss in Detroit,"
calls. "I said: 'I've kind of lost the
down here.'" Freed after a day, N
negotiated to regain control, ev
the Argentine press said that Fo
cretly planned to pull out. Nasser,
wife and four ch
remained in De
received several
threats. Event
the military help
take the plant. T
perience, says N
"reinforced for m
when you're in a
dustry, you're no
test lab—you're
society."

Such adventure
worlds away fro
mountain villag
Amyūn, Leb
where Nasser
born. His father s
gled to get by
bus driver, and
Jac was 4, the f
moved to Aust
Nasser's father
found work as a GM factory fore
but later made a fortune in real e
and restaurants. At 84, he chides J
not striking out on his own. "My f
thinks anyone who goes to wor
someone else is a failure," Nasser j

Still, Nasser retains a stake in
family business. Tucked inside br
Jamie's popular Melbourne night
Silver's, is a small pub known as "
Bar," where Nasser holds court w
ever he's in Australia. Says Black
"He must be the only Ford vice-p
dent with a bar named after him."

The trips home have become
rare as the demands of Nasser's job
mounted. Jamie Nasser, who hears
his brother every week, isn't surp
by his rapid rise. He saw that dri
Jac long ago, as they competed by
side of the road. "He's the same no
when he was 10," says Jamie. "He'
ways been pointed in one direction."
that singlemindedness could event
put him in Ford's driver's seat.

By Keith Naughton in Dearborn,

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EDITED BY AMY DUNKIN

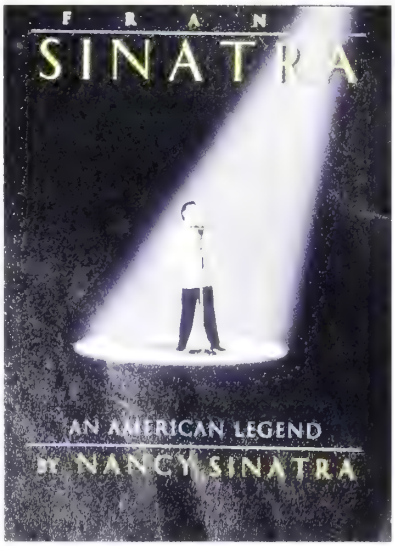
COFFEE-TABLE BOOKS FOR A COZY WINTER'S NIGHT

My dad inadvertently uttered what may be the classic response to receiving an ill-chosen holiday gift: "Oh, it's just what I always wanted," he lied one Christmas upon unwrapping a present. Then, not quite catching himself in time, he added: "What is it?"

If you're already feeling a bit paranoid about choosing gifts this year, why not consider a coffee-table book? It's a safe choice in that there's one for just about every interest and age group. My dad, a jazz fan, would no doubt be delighted to receive *The Blue Note Years: The Jazz Photography of Francis Wolff* (Rizzoli, $65). It's full of beautiful, pensive portraits of Joe Henderson, John Coltrane, Dexter Gordon, and many others taken from 1941 to 1965 by a former professional photographer who was an executive with the pioneering Blue Note label.

Also in a musical vein is *Frank Sinatra: An American Legend* (General Publishing Group, $45), put together by daughter Nancy to celebrate Old Blue Eyes' 80th birthday this month. It includes all sorts of family memorabilia, from a baby picture (the Chairman of the Board entered the world at a huge 13.5 pounds) to behind-the-scenes shots of Sinatra with any number of fellow stars. It's corny, but for Sinatra lovers, the book is a must.

HOLIDAY GIFTS
BOOKS



Another fine nostalgia trip is *A Thousand Days of Magic: Dressing Jacqueline Kennedy for the White House* (Rizzoli, $40). Written by Oleg Cassini, who created the "Jackie look" with considerable guidance from the First Lady, it's an enchanting remembrance of the verve of the Camelot era—and a reminder of just how far we have fallen since, at least stylistically. Another look at the recent past is *The Last Steam Railroad in America* (Abrams, $49.50). It documents the Norfolk & Western Railway before it converted from steam to diesel in the 1950s. The often eerily lit black-and-white photos of trains are wonderful.

FRANK SINATRA: AN AMERICAN LEGEND

By Nancy Sinatra

Chock-full of photos from infancy on up, this is a must for Sinatra lovers

THE PAINEWEBBER ART COLLECTION

By Monique Beudert & Jennifer Wells

A modern-art roundup ranging from Frank Stella (below) to Kiki Smith

Normally, an opus about a corporate art collection wouldn't make a holiday book list. But *The PaineWebber Art Collection* (Rizzoli, $75), about artworks assembled under CEO Donald B. Marron, provides a remarkable overview of the work of important modern artists. Among them are such well-known names as Willem de Kooning, Andy Warhol, and Frank Stella, plus lesser-known a who are doing signi work, such as Kiki Smit Francesco Clemente.

Another good be *Claude Monet: 1840* (Thames & Hudson, $50 catalog for The Art Inst of Chicago's blockbuste hibit. The great Impres ist's protean life story counted: He ate and d prodigiously, was racke self-doubt, and was fo in debt. Seeing the pro sion of his work from pressionist landscapes seascapes to the final stract water lily paint done at his estate Giverny, outside Paris, help make modern art prehensible to those don't get it.

More middlebrow kids will love this on *The Art of Walt Di From Mickey Mou the Magic King* (Abrams, $60). The edition of this history compendium of illustrat stills, and photos from Disney realm came o 1973 and sold more 500,000 copies. This sion is updated to in such recent films as *The King* and *Pocahontas*.

In the reference book egory, *Our Times: The I trated History of the Century* (Turner Publis $65) is crammed wit hodgepodge of informa

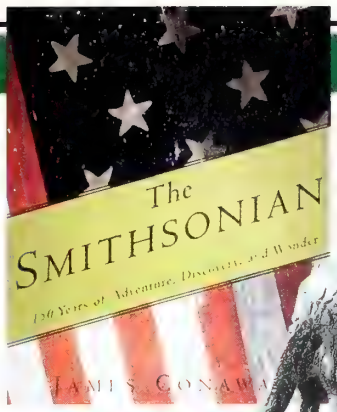
me starts out with an
on Freud by the novel-
M. Thomas and con-
with the text of the
by O.J. Simpson that
out the day he took his
s Ford Bronco ride. In
en are a plethora of ex-
photographs, graphics,
ntriguing facts. Bow
head in shame, for in-
, if you thought that
ying "often a brides-
but never a bride" is
Shakespeare: Indeed, it

oined for a Listerine ad.
ronicle of the Cinema
ng Kindersley, $59.95)
neets the fascinating-fac-
est. Perhaps because it's
nt by a British publish-
has the added virtue of
g an international per-
ve on a subject that all
ften starts and stops
Hollywood. The format
be annoying—it's in
ological order, with en-
written newspaper-style

THE SMITHSONIAN

By James Conaway

Art, documents, and historical detritus crowd this treasure



in the present tense—but it has information on everything from Alice Guy (the first woman film director) to *E. T. the Extra-Terrestrial* to low-life cinema represented by the *The Texas Chainsaw Massacre.*

Outlanders are always asking tough (for me, at least) questions about New York City. Just what are the boundaries of

THE LAST STEAM RAILROAD IN AMERICA

Photography by O. Winston Link

Handsome photos show off the old Norfolk & Western Railway

Greenwich Village? And where exactly is Queens? *The Encyclopedia of New York City* (Yale University Press, $60) wrestles with those and other Big Apple imponderables. It's packed with tidbits about everything from gangster Lucky Luciano to ticker-tape parades through the years.

The Smithsonian Institution in Washington is the repository of an incredible amount of artwork, documents, and historical detritus. Founded with a $500,000 bequest from James Smithson in the 1830s, the illegitimate son of English nobles, the Smithsonian also has a colorful history. *The Smithsonian: 150 Years of Adventure, Discovery & Wonder* (Smithsonian Books/Alfred A. Knopf, $60) lays all this out in

CHRONICLE OF THE CINEMA

Edited by Robyn Karney

This offering covers all the bases—and is international in scope

lively text packed with photos and illustrations taken from its collections. The marvelous pictures—ranging from Igor Stravinsky to a wooden prototype of the Apple computer—are well worth the price.

I loved *Joël Robuchon: Cooking Through the Seasons* (Rizzoli, $40). But I learned at a dinner I once attended at the Paris restaurant run by Robuchon, the great French chef, that French food

isn't for everyone. As the only French speaker at the table, I had to translate liberally to avoid a stampede to the exits by my fellow Americans. The main course was pigeon in a sauce of its own blood, which I rendered as something like "poultry in a special red sauce." That dish isn't in Robuchon's new book, but many Americans may be just as put off by the doses of artery-clogging *crème fraîche* and butter in many of the recipes. Still, the illustrations and photos are extraordinarily appetizing—and cholesterol-free.

There seems to be a dearth of good sports books this season. One exception, however, is *Golfwatching: A Viewer's Guide to the World of Golf* (Abrams/*Golf* magazine, $35). This offering gives the lowdown on major

A THOUSAND DAYS OF MAGIC

By Oleg Cassini

The creator of Jacqueline Kennedy's signature look recreates Camelot

courses worldwide, for both TV viewers and the lucky few who actually get to play them.

For architecture lovers, or anyone contemplating building a dream house, *American Masterworks: The Twentieth Century House* (Rizzoli, $65) has multiple interior and exterior shots of spectacular homes. Finally, for another excellent photo book try *Portraits: Edward Weston* (Aperture, $40).

The beauty of coffee-table books is that there's a good one on almost every subject. Plus, you won't have somebody opening up your gift—and wondering just what the heck it is. *Thane Peterson*

CORPORATE GIFTS: WHAT'S NAUGHTY OR NICE

'Tis the season for desk sets, fruit baskets, and logo caps to pile up beneath the artificial limbs of the office Christmas tree. But the issue of holiday gift giving among business associates has become as prickly as the needles on a plastic evergreen now that more companies are focusing on ethics. "Practices of yesterday that weren't even questioned are looked at very closely today," says Jacquelyn Gates, vice-president for ethics and business conduct at Nynex.

For example, is the annual smoked turkey from XYZ Corp. a token of good cheer or a calculated bribe? "Employees have to ask themselves whether the gift will affect their objectivity," says Gates, whose department was established five years ago after 24 purchasing managers at New York Telephone, a Nynex subsidiary, were fired or forced to resign for improperly accepting money and gifts from suppliers.

For reasons perhaps less compelling than Nynex', companies such as Sears Roebuck, Texas Instruments, and New York Life Insurance have also installed ethics watchdogs who spend the holiday season reminding employees that, when it comes to gifts, a cigar is not always just a cigar. Their admonitions—often in the form of memos reiterating company policy—typically lay out acceptable price limits for gifts received and protocol for returning gifts that are out of line. If the item is perishable, for instance, the company might recommend donating it to a food pantry. If the giver comes from a culture where bestowing lavish gifts is the norm—and therefore might be offended if you send something back—an option would be to auction it off and give the proceeds to charity.

The principal theme is always to guard against even the appearance of impropriety. "Conflict of interest is a major category in business ethics, and therefore certain types of gifts should be avoided" by givers and receivers alike, says Michael Hoffman, executive director of the Center for Business Ethics at Bentley College in Waltham, Mass.

HOLIDAY GIFTS PROTOCOL

In general, gifts costing more than $25 (the limit the giver can deduct from income taxes for business-related gift expenditures) are deemed excessive. Regardless of price, business gifts delivered to an employee's home are widely seen as unacceptable, as are presents to an employee's family.

Of course, anything of a sexually suggestive nature, such as lingerie, is taboo, and it is just plain bad form to send a gift to someone with whom there has been no previous business contact. Explains Genae Fields, corporate image consultant with Image One International in Houston: "A holiday gift can say 'thank you,' but never 'please.'"

Ethicists often cite promotional items such as caps, T-shirts, pens, and calendars emblazoned with a corporate logo as exemplary gifts because they have no street value. But Susan Bixler, president of Professional Image in Atlanta, who advises companies on gift giving and other protocol issues, scoffs at veiled as gifts: "People t logo stuff in drawers closets. It's not somet anybody wants."

Bixler says a business is like any other: It's thought that counts. Sc recommends choosing i that fit the receiver's pe ality as well as company policy. For e ple, if a c plays golf, a of $15 monogrammed balls would do nicely.

Food is a satisfactory if dietary restrictions ar spected: no hams to veg ians or chocolates to di ics. Bixler says it is important to sample foods before deciding wh send because "you want ple to enjoy it, not keep their pantry for decades." gional comestibles are po in that they extend a t of home for the holidays. Estus, president of Hous based commercial real es firm Shelby/Estus Re Group, says he has had luck sending out-of-town ness associates $12.50 T pecan pies since "it's s thing they can't get w they are."

SECRET SANTAS. Within office, the rule of thum that giving "down" is g but giving "up" is Fields at Image One say employer who gives a b or trinket to an empl during the holiday seas interpreted as "gener whereas an employee gives something to the is seen as "kissing up." deed, Nynex' Gates says office discourages givin supervisors because of "appearance of an atte to influence."

As a result, secret S parties have emerged way to have an office gift change without violating s dards for ethics or good t Staff members buy gen less gifts, usually under which are handed out domly at an afternoon ge gether. Punch and cookies allowed. *Kate Mu*

Guidelines for Office Giving

- Give down, not up. An employer may present a bonus or a trinket to an employee, but it's a bad idea for an employee to give something to the boss. (It's seen as kissing up.)
- In general, don't give gifts costing more than $25, which is the maximum you can deduct from taxes for business-related gift expenditures.
- Try to take the receiver's personality into account: A $15 box of monogrammed golf balls for a client who plays golf or a regional food item for someone who lives in another part of the country would be appropriate.
- Always guard against even the appearance of impropriety. If you receive an expensive gift and don't feel comfortable sending it back, auction it off and donate the proceeds to a charity.

DATA: BUSINESS WEEK

ULTRAVALET: *The $250 bag opens like a book*

GS WITH SINESS SENSE

l warrior Chris ı has been on a ion. The corpo- director of rooms cago-based Hyatt Ho- orp. has been shopping ideal piece of luggage. ooking for a carry-on vheels that compart- to hang ınd costs between $200 250. "You can trash a retty well if you don't t right and don't have roper kind of bag," says.

EQUIPMENT. For trav- such as Elam—con- y on the move and un- to waste precious time aggage-claim carousel— ıpact, easy-to-lug bag ıolds everything is a vi- ece of business equip- . Yet, until recently, of the rolling products either too bulky to fit in overhead rack or too ed to hold much more a shirt and a change of wear.

t this holiday season, ge makers are trying to answer travelers' prayers. They have introduced wheels on just about any kind of carry-on item you can think of, from duffels to garment bags. Best of all, some of the more versatile products are ingeniously designed, with expandable compartments for clothes, computers, and files.

HOLIDAY GIFTS
LUGGAGE

The new pieces generally have sleek, retractable handles attached to narrow frames recessed into the fabric. That way, they avoid the bulky metal frames that used to run through the middle of many rolling suitcases, taking up precious space. Some of the bags and briefcases, particularly those equipped with compartments for office gadgets, have steep price tags. Boyt's Walk-In Office, a tapered briefcase on wheels that fits under an airline seat and holds a laptop computer, portable printer, and cellular phone, costs $495. For that money, you also get a lifetime guarantee.

One of the best all-in-one bags is the BusinessPlus Rollaboard from Travelpro, a luggage company founded by former airline pilot Bob Plath. This soft-sided suitcase holds a laptop, business files, and enough clothes for two nights, including a suit—and the whole thing fits in a plane's overhead compartment. The computer briefcase inside the bag can be removed and used separately. If the $310 price makes you balk, Delsey Luggage sells a less expensive all-in-one bag, Executive Trolley, for $180.

Introducing garment bags on wheels about a year ago was a breakthrough, even though most are still too wide to be rolled through an airplane aisle and must be carried to the seat. Samsonite's new $250 Ultravalet Garment Bag on Wheels opens like a book. The left side turns into a drawer and the right side becomes a closet, says Paige Miller, director of Samsonite's marketing services. For the more price-conscious traveler, American Tourister's Paradigm line has a new $169 wheeled garment bag. It features an extender panel that drops inside the bag to hold longer clothing items, such as dresses. It also has a "wet" pocket for toiletries and four other interior pockets.

The average wheeled garment bag weighs 10 lb. to 12 lb. empty, but Hartmann Luggage sells a 4-lb. model that stores up to four suits or six dresses. Be prepared to shell out $445 to $595, depending on the fabric. Delsey's 9-lb. version costs $260 and holds four nights' worth of clothes.

TWO VERSIONS. If you're in the market for a carry-on suitcase, Lark Luggage has two new wheeled, soft-sided E-Z Traveler Pullmans. One bag is expandable to carry up to two suits and enough clothes for three days, and at $300, is the company's top seller for business travelers, says Lark marketing administrative supervisor Kathy Dallmeyer. A nonexpandable version costs $250. At the upper end, Tumi's $475 soft-sided, wheeled suitcase holds two to three days' worth of clothes. The bag, which fits into an overhead bin, has a compartment that holds one suit.

ROLLABOARD: *Fits enough for two nights*

Backpacks are also big sellers this year. Because they evenly distribute the weight of your load, they're better for the back than heavy shoulder bags that drag you down on one side. With this in mind, Samsonite has introduced the business-oriented Re-Packs backpacks that are roomy enough to hold laptops and accessories. Made from recycled plastic bottles, they cost $35 to $120.

With the variety of luggage options available this holiday season, don't be surprised to see Santa climbing down the chimney with his sack of goodies—on wheels, of course. *Laura Koss-Feder*

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* [illegible]

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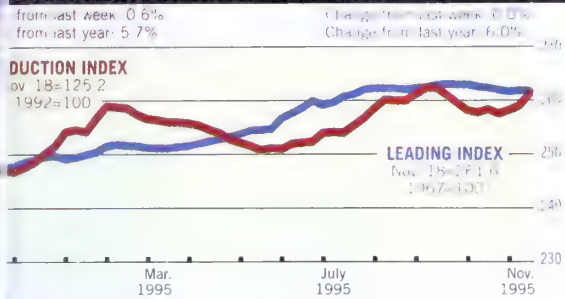
siness Week Index

UCTION AND LEADING INDEXES

from last week: 0.6%
from last year: 5.7%



are 4-week moving averages

luction index increased during the week ended Nov. 18. Before on of the four-week moving average, the index rose to 127.2, up from 125.8 in the previous week. Increases in the seasonally adjusted f cars, trucks, and electric power led the advance.

ling index was virtually unchanged in the latest week. Slower growth estate loans and M2 combined to drop the unaveraged index to 261.5 3.0.

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ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (11/24) S&P 500	598.86	594.59	32.3
RATE BOND YIELD, Aaa (11/24)	7.03%	7.02%	-18.4
RIAL MATERIALS PRICES (11/24)	111.8	111.9	NA*
SS FAILURES (11/17)	322	328r	15.0
STATE LOANS (11/15) billions	$503.2	$504.9	10.7
SUPPLY, M2 (11/13) billions	$3,717.7	$3,719.8r	4.2
. CLAIMS, UNEMPLOYMENT (11/11) thous.	370	381r	13.5

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans. *Historical data available from CIBCR

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (11/28)	5.69%	5.73%	5.85%
ERCIAL PAPER (11/28) 3-month	5.73	5.72	6.05
ICATES OF DEPOSIT (11/29) 3-month	5.73	5.73	6.08
MORTGAGE (11/24) 30-year	7.64	7.66	9.36
TABLE MORTGAGE (11/24) one-year	5.68	5.78	6.36
(11/29)	8.75	8.75	8.50

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/25) thous. of net tons	1,886	1,877#	-4.7
AUTOS (11/25) units	79,539	124,051r#	-0.4
TRUCKS (11/25) units	68,492	120,172r#	3.8
ELECTRIC POWER (11/25) millions of kilowatt-hrs.	57,288	60,532#	3.3
CRUDE-OIL REFINING (11/25) thous. of bbl./day	13,875	13,721#	-2.5
COAL (11/18) thous. of net tons	19,450#	19,609	-2.6
PAPERBOARD (11/18) thous. of tons	819.5#	812.6	-8.0
PAPER (11/18) thous. of tons	796.0#	793.0	-7.5
LUMBER (11/18) millions of ft.	422.2#	445.8	-16.6
RAIL FREIGHT (11/18) billions of ton-miles	25.2#	25.2	0.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/29) $/troy oz.	388.500	386.300	1.2
STEEL SCRAP (11/28) #1 heavy, $/ton	134.50	134.50	-2.9
COPPER (11/25) ¢/lb.	142.7	139.7	3.8
ALUMINUM (11/25) ¢/lb	77.5	77.0	-19.3
COTTON (11/25) strict low middling 1-1/16 in., ¢/lb.	85.18	84.50	16.9
OIL (11/28) $/bbl.	18.28	18.09	1.7

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/29)	101.60	101.60	99.78
GERMAN MARK (11/29)	1.44	1.41	1.55
BRITISH POUND (11/29)	1.53	1.56	1.56
FRENCH FRANC (11/29)	4.93	4.86	5.40
ITALIAN LIRA (11/29)	1595.7	1592.5	1618.0
CANADIAN DOLLAR (11/29)	1.36	1.35	1.38
MEXICAN PESO (11/29)	7.465	7.705	3.440

Sources: Major New York bank [illegible] except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

IG INDICATORS

sday, Dec. 6, 8:30 a.m. ▶ The index ing indicators probably fell 0.2% in r after slipping 0.1% in September, e median forecast of economists sur- by MMS International, one of The w-Hill Companies.

'RUCTION SPENDING

sday, Dec. 6, 10 a.m. ▶ Construc- ending likely rose 0.5% in October. t would be the fifth straight increase, ng a 1.2% jump in September.

RY INVENTORIES

'ay, Dec. 7, 10 a.m. ▶ Manufacturing ories probably rose 0.5% in October, says the MMS report. Stock levels rose 0.6% in September.

CONSUMER CREDIT

Thursday, Dec. 7, 3 p.m. ▶ Consumers probably added $7.5 billion in new debt in October after an increase of $5.4 billion in September. Both gains are slower than the monthly additions in the first half of 1995, but that borrowing surge has caused consumers to cut back on spending now.

EMPLOYMENT

Friday, Dec. 8, 8:30 a.m. ▶ The MMS forecast calls for a gain of 153,000 nonfarm jobs in November after a 116,000 rise in October. The October increase was held down by a strike in the aircraft industry. The unemployment rate probably held at the October level of 5.5%.

NEW HOME SALES

Friday, Dec. 8, 10 a.m. ▶New single-family homes likely fell back to an annual rate of 720,000 in October after rising 3.3%, to a 727,000 pace, in September.

GDP REVISIONS

Friday, Dec. 8 ▶ The Commerce Dept. will release the historical data for its new chain-weighted gross domestic product. The data, originally scheduled for Nov. 21 but delayed by the government shutdown, will cover the period of 1959 through 1992.

This Week, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

How do you pick an investment adviser to help with your finances? Carefully—and more and more people need advice on 401(k) plans, saving for the kids' education or for retirement, rolling over pension payouts, or whatever. Talk with BW Senior Writer Jeffrey M. Laderman on finding your way through a crowded field. **Dec. 3**
9 p.m. EST in the Globe

Tuesday

Interview with the Author: Rosabeth Moss Kanter, Harvard B-school professor and authority on how to manage change, talks with BW's Bruce Nussbaum about her latest book, *World Class: Thriving Locally in the Global Economy.* **Dec. 5**
10 p.m. EST in Main Stage

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

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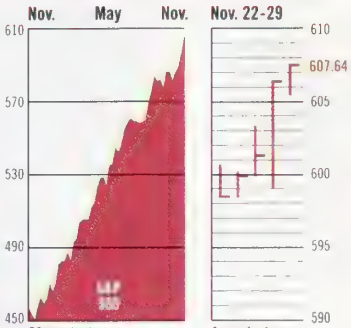
vestment Figures of the Week

TARY

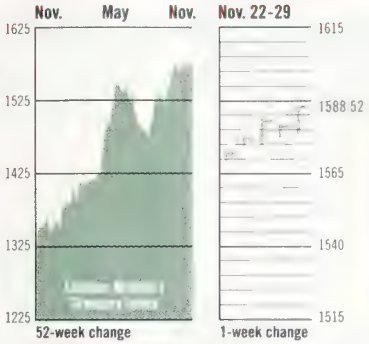
the adage that markets in a straight line? Well, at least when it comes 5 stock market. There's pping the feeding frenzy. surge in such high-tech Netscape and Sun Mi- s and the rousing recep- initial public offering of ov. 29, the Dow industri- through 5100, posting its ecutive new high. Of e rally in bonds helped a is market is under a full eam and could continue ore it slows.

STOCKS



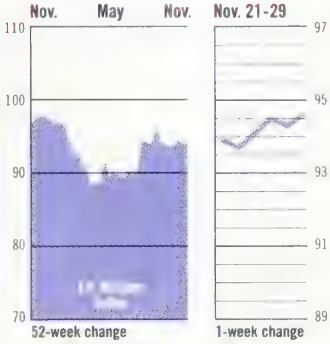
52-week change +33.9%
1-week change +1.2%

BONDS



52-week change +19.4%
1-week change +1.0%

THE DOLLAR



52-week change −2.7%
1-week change +0.7%

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
S INDUSTRIALS	5105.6	1.6	36.5
OMPANIES (S&P MidCap Index)	217.3	2.2	29.2
MPANIES (Russell 2000)	306.7	1.9	25.6
ANIES (Russell 3000)	347.0	1.5	33.4

I STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	3655.5	1.4	18.6
KKEI INDEX)	18,534.0	0.8	−2.8
(TSE COMPOSITE)	4670.8	1.0	14.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.48%	5.51%	5.71%
30-YEAR TREASURY BOND YIELD	6.20%	6.27%	7.99%
S&P 500 DIVIDEND YIELD	2.46%	2.48%	2.83%
S&P 500 PRICE/EARNINGS RATIO	17.2	17.0	16.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	545.3	542.2	Positive
Stocks above 200-day moving average	64.0%	63.0%r	Neutral
Speculative sentiment: Put/call ratio	0.60	0.64r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.64	1.88	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
AND GLASS CONTAINERS	25.7	14.8	CROWN CORK & SEAL	29.5	16.8	43 3/8
IES	17.3	44.4	SOUTHWEST AIRLINES	24.8	18.2	25 1/8
NUM	15.0	37.3	ALCOA	16.8	41.5	57 1/2
ID GAS DRILLING	14.4	3.2	ROWAN	19.6	13.0	7 5/8
ING	14.2	3.8	CONSOLIDATED FREIGHTWAYS	18.6	35.6	27 1/8

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
ONDUCTORS	−7.6	56.0	MICRON TECHNOLOGY	−21.9	166.1	54 3/8
CHAINS	−3.0	17.1	AMERICAN STORES	−10.8	3.4	26 3/4
UMENTATION	−3.0	58.6	TEKTRONIX	−6.8	52.1	54 1/4
S	−2.9	27.8	STRIDE RITE	−17.8	−28.2	9 1/4
SPORTATION SERVICES	−2.9	26.3	FEDERAL EXPRESS	−6.0	35.2	76 3/8

UAL FUNDS

MORNINGSTAR INC

TS

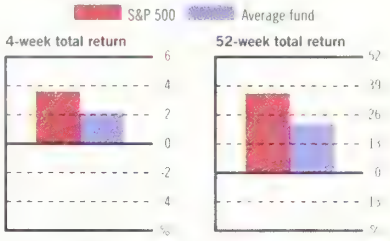
ek total return	%
ITY SELECT INDUSTRIAL MATERIALS	11.8
ITY SELECT AIR TRANSPORTATION	11.0
ANADA A	9.8

total return	%
R CAPITAL APPRECIATION	75.5
ITY SELECT ELECTRONICS	74.6
TT SMALLER COMPANIES A	70.1

LAGGARDS

Four-week total return	%
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−11.9
EV MARATHON GREATER INDIA	−11.1
RESERVE INFORMED INVESTORS GROWTH	−9.2

52-week total return	%
WRIGHT EQUIFUND-MEXICO	−58.4
EV MARATHON GREATER INDIA	−39.5
BT INVESTMENT LATIN AMERICAN EQUITY	−39.0



ATIVE PORTFOLIOS

DRI/McGRAW HILL

mounts represent the value of $10,000 d one year ago portfolio

tages indicate y total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$13,717	$13,224	$11,810	$10,560	$10,069
+1.61%	+0.73%	+0.69%	+0.12%	+0.67%

on this page are as of market close Wednesday, Nov. 29, 1995, unless otherwise in- Industry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 28. Mutual fund returns are as of Nov. 24. Relative portfolios are valued as of Nov. 28. A more detailed explanation of this page is available on request. r=revised

THE U.S. AND EUROPE: A NEW REALITY

For the third time this century, U.S. troops are going to Europe in the face of war on the Continent. Four years after the assembled European nations declared they were capable of handling the breakup of the former Yugoslavia on their own, it is still the might of the U.S. armed forces that underpins the Bosnian peace plan.

For the U.S., the temptation now is to dismiss its old European allies as ineffectual and irrelevant, but that would be wrong. The challenge, instead, is to redefine Washington's economic and military expectations for a Europe that may never be able to function as a single entity.

One critical issue is the nature of America's economic relationship with Europe. There's little doubt that Europe is struggling economically. Over the past five years—a period that includes a global recession—European economies have grown at only a 1.5% annual rate, compared with 2.4% for the U.S. In 1985, Europe's economic output was roughly equal to Asia's. Now, Europe's economy is only two-thirds that of Asia—and rapidly losing ground. High wages and the strong mark have left German manufacturers hard-pressed to compete on world markets, while the 1999 target for European monetary union seems unlikely to be met.

But despite these problems, Washington should recognize that there could be a big potential payoff from closer economic partnership with the Europeans. As visions of a united Continent have waned, Europeans have been talking up some sort of transatlantic economic partnership to strengthen ties that have been fraying ever since the common enemy—the Soviet empire—collapsed. A TAFTA, or transatlantic free-trade agreement, is unlikely to find strong support on either side of the ocean. But harmonization of investment and trade rules, for example, would help U.S. companies do even more busi in a region that is open to foreign products and capital deed, about half of U.S. foreign direct investments in the half of 1995 went to European countries.

Closer coordination of trade strategies also could ma easier for the West to get such trade behemoths as C Japan, and Korea to play more by accepted internati rules. In a tripolar global economy, the U.S. will need Eu to help force booming Asian economies to embrace free kets and capitalism.

Politically, Washington must work toward a new part ship with Europe to avoid repeats of the Bosnia fiasco. A failing to lead on Bosnia early on, Clinton Administra officials ultimately threw out the diplomatic niceties and laterally imposed a solution on the warring factions. Euro money will help rebuild Bosnia, and the formal signing o peace accord will be held in Paris—but the impetus all c from the U.S.

Unless a new framework can be found for consisten operation, Europeans are unlikely to follow willingly on matters in the future. To rebound from their humilia European governments, led by France, may try to bee the Western European Union, the European security arm France sees as a potential successor to NATO. To head off a move, Washington might consider moving NATO headq ters back to Paris and working to find a more active rol France in its command structure. Now that the U.S. proved willing to put 20,000 troops on the ground in Bo such bold steps might be enough to begin rebuildi transatlantic commitment that seems to be unravelling as peace again comes to Europe.

ADVICE ON INVESTMENT ADVISERS

Sometimes there's an opportunity to stop a scandal before it hits. More Americans are depending on investment advisers to help them arrange their financial future. But these advisers, who may have little training, fall into a regulatory no-man's-land between the federal government and state agencies. That's why Congress should put a high priority on clarifying the situation: State governments should be given the explicit primary responsibility for regulating and licensing the smaller investment advisers, which would allow the Securities & Exchange Commission to devote its limited resources to monitoring the larger advisers.

Right now, the division of responsibilities is muddled, to say the least. The SEC registers all advisers for a nominal fee but does not have the funds to follow up most complaints or allegations of misbehavior, especially those involving relatively small amounts of money. In the absence of an active federal role, virtually every state has stepped up oversight of investment advisers—but as long as the SEC actually han the registration, the states are limited in what requirem and sanctions they can impose on wayward advisers.

This issue is becoming especially important now as baby-boom generation looks for help managing its fast proaching retirement. The number of registered investn advisers has exploded in recent years, now exceeding 21 and rising fast. As in any such fast-growing field, the po tial for fraud and abuse is enormous (page 103).

The large investment advisers—those managing $5 lion or more—should be more closely regulated by the But most are relatively small and operate only in a lim area, making state regulation more appropriate than fed control. In an era when the Republican Congress is willin push welfare, food stamps, and all sorts of other progr down to the state level, it should not balk at giving state ernment regulatory power as well.

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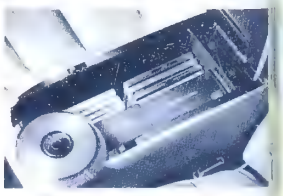

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IPO CAPITALISM

The boom in initial public offerings is more than a Wall treet wonder. It is financing an explosion in innovation id growth that will propel America into the next century.

PAGE 64

JIM CLARK
The founder of Netscape has become a billionaire since August

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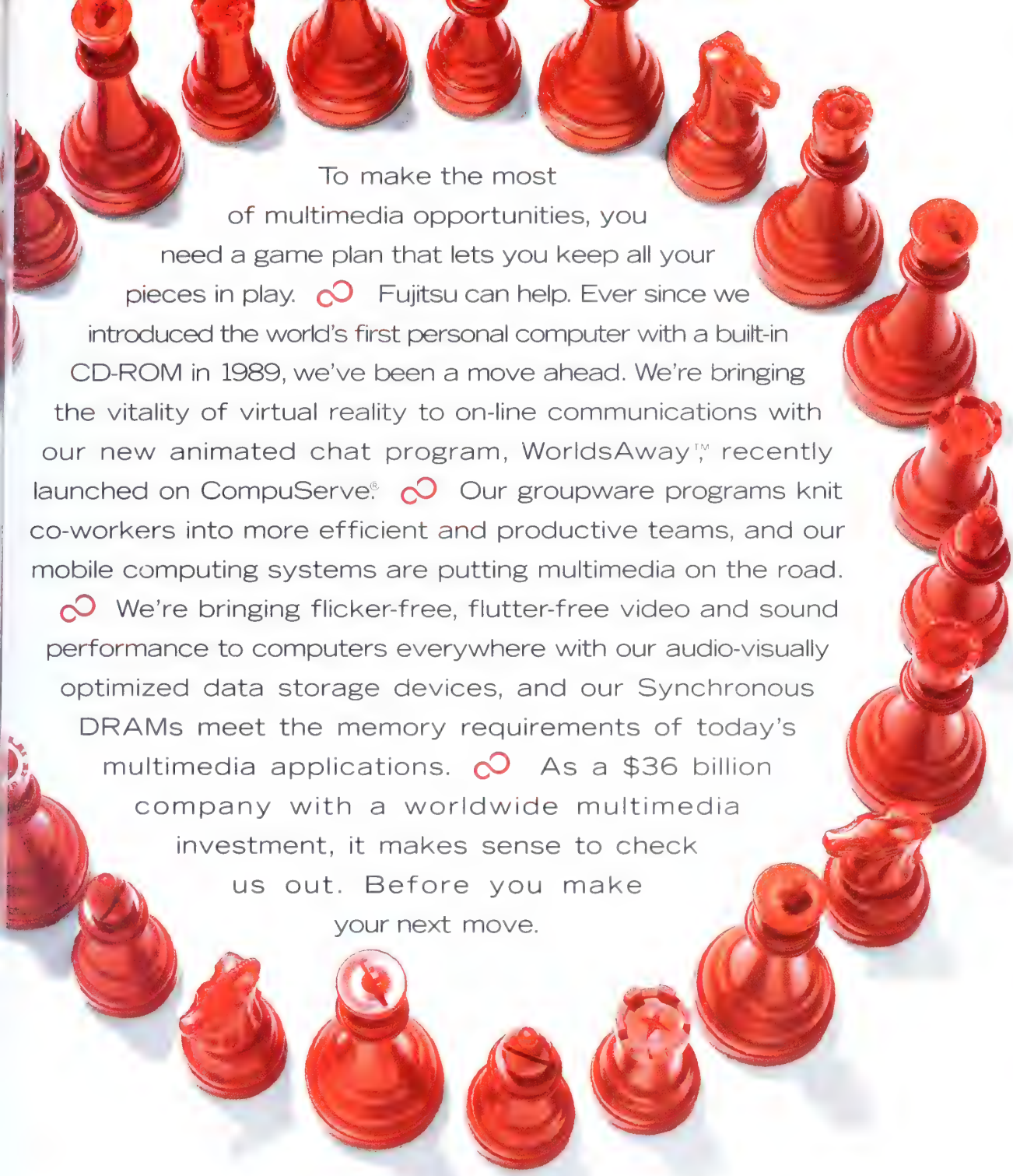

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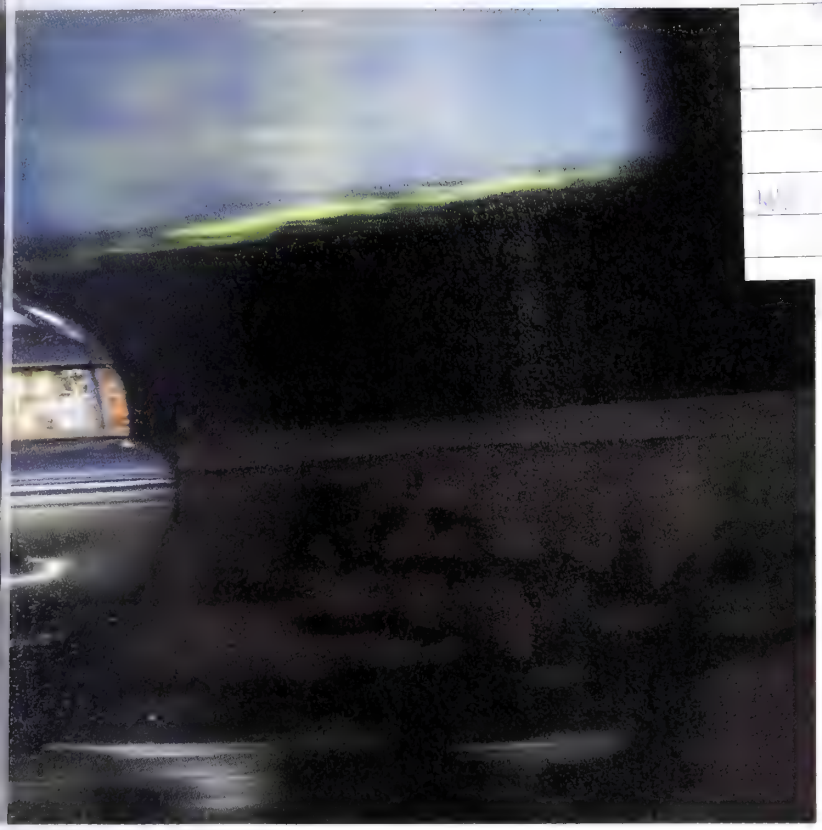

e Road.

; Powered Lincoln Continental th Road-Calibrated Suspension

w a twisty mountain road or a teeth-rattling :h of potholes at a lot of luxury sedans and they passively accept the situation. Present the same Lincoln Continental, however, and it rolls up its es and goes to work.

Sensors in Continental's exclusive Road-Calibrated ension "read" the driving conditions, then relay complement to Continental's InTech™ System, a technological showcase that includes a responsive 32-valve, 260-horsepower V-8 engine.

But even though Continental exhibits an almost sports-car-like approach to the road, it is still first and foremost a luxury car. Its spacious cabin is trimmed in hand-finished walnut. The supple leather of its seats was selected not just for its look and feel but also for its scent. And at every corner there are impressive features like dramatic virtual image instrumentation and a 12-function Memory Profile System.

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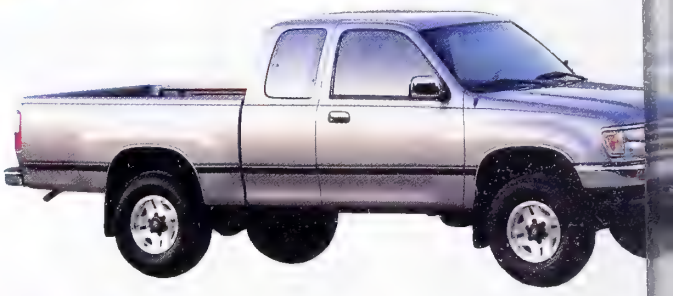
LINCOLN
What A Luxury Car Should Be

BusinessWeek
DECEMBER 18, 1995

WATCH OUT, DETROIT

Toyota's Hoosier-built T1 heads for a hot market: Full-size pickups page 50



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AN EXPLOSIVE MIX AT TRW
Air bag plant mishaps and bad press are haunting the company

Finance

A PAINEWEBBER EXEC'S BAD BETS
Joseph Grano, the company's heir apparent, had some personal financial fiascoes on his road to success

THE DERIVATIVES DISASTER REDUX
Two probes eye Wall Street's role in the fall of David Askin's $700 million in mortgage-backed funds in 1994

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A breakthrough for diabetics

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Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

TALK SHOW "We are beginning to allow for the possibility that the valuation clocks we have been using are broken."

—Longtime bear David Shulman, chief equity strategist for Salomon Brothers, adopting a bullish stance

FUNNY BUSINESS

BAUSCH & LOMB ZOOMS IN ON ITSELF

BAUSCH & LOMB'S OUTSIDE directors have hired former Securities & Exchange Commission enforcement chief Gary Lynch to probe accounting shenanigans at the optical giant, BUSINESS WEEK has learned. Lynch, 45, gained renown for his sleuth work in many Wall Street scandals of the 1980s, including the Michael Milken affair.

Now a private attorney specializing in internal inquiries, Lynch drew flak last year by conducting a probe of the Kidder Peabody bond-trading scandal while also defending Kidder in a claim related to the case. Still widely respected, Lynch and two associates have already started looking into charges raised by BW that top B&L managers inflated sales by faking invoices and telling distributors they didn't have to pay for goods. His main task: to determine the culpability, if any, of B&L CEO Daniel Gill, who blames the problem on overzealous execs who have since left.

GARY LYNCH: *Ex-Wall Street cop*

Meanwhile, Gill is getting knocked for ongoing profit woes. B&L announced Dec. 5 that fourth-quarter earnings of 40¢ to 50¢ per share would fall at least 35% below already reduced expectations. Next day, Gill fielded hostile questions from an overflow crowd of analysts and investors in New York. Gill's offer to cut his 1995 pay by 10% did not seem to assuage many. *Mark Maremont*

SLUGFESTS

NO WHITE FLAG YET FROM GABELLI & CO.

EVER COMBATIVE MARIO Gabelli is taking on the National Association of Securities Dealers. The money manager has initiated the extreme step of filing a court appeal to overturn an NASD arbitration panel decision—an award of some $850,000 to a former employee. This comes despite Rye (N.Y.)-based Gabelli & Co.'s signing an agreement last year to abide by the panel's decision.

The fight pits Gabelli against Elizabeth Bramwell, who racked up good returns heading his Gabelli Growth Fund before leaving in February, 1994, to start her own outfit, Bramwell Capital Management. After sorting through each side's welter of claims and counterclaims, the arbitrators gave the most to Bramwell. She, for instance, had to return $192,000 she had received in advance, which she says was really a bonus for past service.

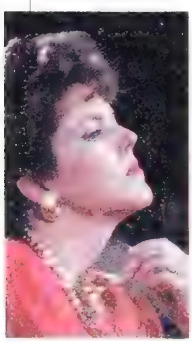
MARIO: *To the hand wall*

An NASD spokesman says it's "extremely rare" to appeal an arbitration decision in court. To win, the appealing party must prove gross procedural deficiencies, such as biased arbitrators, he says. Gabelli lawyer Jeffrey Liddle of New York's Liddle & Robinson admits the appeal is "an uphill battle." But he says his client is justified because the NASD panel based its findings on a flawed reading of a Bramwell-Gabelli employment pact.

What about the Gabelli agreement to accept the NASD ruling? Says Liddle: "That doesn't say we must give up appeal rights."

POWER COUPLES

REVENGE OF THE JUSTICE'S WIFE?



LIBERAL BASHER: *Virginia Thomas*

IS IT SWEET revenge for Virginia Thomas, wife of Supreme Court Justice Clarence Thomas? Four years ago, liberal nonprofit groups savaged her husband's court nomination. Now, she's a top aide to House Majority Leader Richard Armey (R-Tex.). One of her jobs: helping win passage of a bill by Representative Ernest Istook (R-Okla.) to restrict lobbying by many of those same nonprofits. The proposal would affect any group receiving federal funds, such as Planned Parenthood or the American Civil Liberties Union (which criticized Clarence Thomas).

Armey's office insists Thomas is simply keeping GOP Hill leaders up to date on the bill and is not lobbying against the lobbyists who lobbied against her husband. The Alliance for Justice, a liberal coalition that strongly opposed Clarence Thomas (but doesn't itself get federal bucks), notes she was an activist for conservative causes even before she met him. In the 1980s, she worked as a lobbyist for the U.S. Chamber of Commerce, making a mark as a foe of government regulation. *Richard Dunham and Susan Garland*

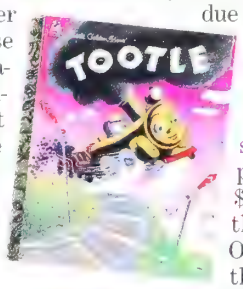
HONCHOS

PRIDE GOETH BEFORE A BOTCHED BUYOUT

IT'S NOT EVERY DAY YOU GET a corner-office *mea culpa*. That's what Richard Bernstein, CEO of Western Publishing, has delivered to investors in the company's just issued annual report. He says he wasn't fair to them in a failed buyout of the company by former Simon & Schuster chief Richard Snyder and investment house Warburg Pincus. Analysts say the deal collapsed in October at least partly because of shareholder distress over how it favored Bernstein.

In the report, Bernstein writes that his "pride and vanity" allowed him to push a deal "in which I would be treated differently from" other shareholders. He says any future deals will treat all shareholders equally.

Western, publisher of the classic Golden Books (*Tootle, The Poky Little Puppy*) beloved by children, has had a rocky financial history of late due to fierce competition. Snyder and Warburg Pincus offered to buy Bernstein's 20% stake in the company at $15.50—a $2 premium over the market price. Other shareholders, though, were not allowed to tender their stock. □



DERAILED: *A sweet deal for the boss*

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Up Front

MOTHER NATURE

A NICE SIDE TO ZEBRA MUSSELS?

UNCOUTH: *Zebras on a clam*

HERE'S A RARE GOOD WORD for the zebra mussel, scourge of the Great Lakes for the past 10 years. Yes, they clog the water-intake pipes of factories and power stations, costing $6 million yearly in cleanup fees for Lake Erie, which is infestation ground zero. And by competing with fish for plankton, zebra mussels have helped cut Lake Erie's sportfishing business—$600 million a year in 1984—by two-thirds.

But the mollusks are cleaning up murky lake waters. By ravenously filtering floating particles, they're bringing back long-vanished water plants, such as tape grass, says Ohio State University biologist Ronald Stuckey. Another factor: recent curbs on phosphate pollution.

Their water-clearing effects have hardly won the mussels a reprieve from eradication efforts. There's new bad news: Scientists now suspect they may eat toxic chemicals on lake bottoms, which are then absorbed by fish that feed on the mussels. While the theory has yet to be proved, the toxins may end up on dinner plates. Also, experts believe the mussels altered the Lake Erie ecosystem this summer and caused a huge bloom of toxic algae. *Peter Coy*

VOX POPULI

GIVE US A PIECE OF YOUR MIND

READER SURVEY

ONCE AGAIN, IT'S TIME for Up Front's annual Reader Survey. For our third outing, we've gone online. You can E-mail us at bwsurvey@businessweek.com. Or fax us at 212 512-3344. Or you can go low-tech and mail your response to: Up Front Reader Survey, c/o Oluwabunmi Shabi, BUSINESS WEEK, 1221 Avenue of the Americas, 39th floor, New York, N.Y. 10020. Replies by Dec. 20, please.

1. How do you feel about your personal job security, compared with your situation last year?
- ☐ *More secure*
- ☐ *Less secure*
- ☐ *The same*

STOCKS: *Higher?*

2. When you retire, your standard of living will:
- ☐ *Improve*
- ☐ *Worsen*
- ☐ *Stay the same*

3. The best target date to balance the federal budget is:
- ☐ *1997* ☐ *2002*
- ☐ *2005* ☐ *Never*

4. The Information Superhighway is:
- ☐ *The economy's future engine*
- ☐ *A lot of hype*

5. Fill in the blank: Your favorite stock is: _____

6. Fill in the blank: The high point for the Dow Jones Industrial Average in 1996 will be: _____

DRAWN & QUARTERED

PAPER PLAYS

'TIS THE SEASON FOR CEMENT

THE CEMENT PLAY IS A canny—and little-noticed—way to make money from seasonal swings in share prices. Or so Scott & Stringfellow, a Richmond (Va.) securities firm, tells clients: Buy these unglamorous stocks at their low point in December and sell them in April, when the construction season cranks up and share prices rise. The Richmond firm tracked the December-April performance of three of the largest publicly traded U. S. cement companies over the past five years. Lafarge, Medusa, and Southdown racked up an average annual return—just price, not dividends—of more than 3

Timing is crucial. D Beeghly, the Scott & St fellow analyst who founc pattern, says spring is best time to sell becaus ter the slow winter mo Wall Street typically prei a rosy construction Later, reality intrudes, as bad weather, whiche often sour the outl

Beeghly finds a similar tern in other construc related stocks, but it isn pronounced. Example: Vu Materials, which makes a riety of building mater had an average return of 9.7%. *Amy Ba*

Lafarge's Stock Price

FIRST TRADING DAY OF MONTH

	1990–91	91–92	92–93	93–94	94
DEC.	10%	11%	13%	20%	1
APR.	14%	15	16%	21%	1

DATA SCOTT & STRINGFELLOW INC

THE BIG PICTURE

Persistent "glass ceilings," unsympathetic bosses, and family pressures leave fewer women extremely satisfie with their jobs, a new poll says. But more men are happ buoyed by the mid-1990s economic expansion.

FOOTNOTES Newsprint thrown away yearly in U. S.: equivalent of **30 million** trees. Amount of newspapers recycled: **27%**

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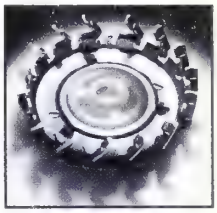

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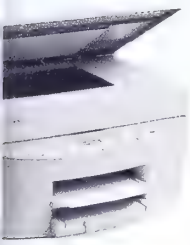

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Readers Report

DOES THE CPI INFLATE INFLATION?

Robert Kuttner's column "Why it's too soon to monkey with the CPI" (Economic Viewpoint, Nov. 27) leaves the impression that I agree with the views of Dean Baker [of the Economic Policy Institute], which I do not. Since Kuttner did not speak to me directly, he must be referring to my June 6 testimony before the U.S. Senate Finance Committee, where I did, indeed, express reservations about the empirical underpinnings of the whole debate. But I also indicated my belief that, on balance, the consumer price index did overstate inflation in recent years by a significant amount.

Since the time of the testimony, the Advisory Commission, of which I am a member, has met several times, reexamined the evidence, and concluded unanimously in its interim report that the recent rate of overstatement of price growth by the CPI was on the order of 1.5% per year, with a range of reasonable uncertainty from 1% to 2% or higher. There was more evidence on this than I had realized at the time of my testimony, most of it actually discovered and provided by the Bureau of Labor Statistics itself.

The commission is pursuing this topic further, not only to improve the quality of this particular "number" but also to investigate workable suggestions of how the BLS could improve the CPI and make it into a better measure of the cost of living, a goal that we share with them.

Zvi Griliches
Professor of Economics
Harvard University
Cambridge, Mass.

SIZING UP AT&T'S DOWNSIZING

In "For a pink slip, press 2" (News: Analysis & Commentary, Nov. 27), you quoted Harold W. Burlingame, AT&T's senior vice-president for human resources, as saying: "We will downsize and grow at the same time, as we add[illegible] new markets and new opportunitie[illegible]

In terms of dollars, it may indee[illegible] less expensive to force out 15,000 pe[illegible] while hiring 20,000 others than to [illegible] train existing employees for the c[illegible] lenges ahead. All I can say is, if I w[illegible] a savvy fast-track manager, I w[illegible] think twice before signing on with [illegible] a fickle organization. If a signifi[illegible] number of talented managers feel si[illegible] larly, Mr. Burlingame & Co. may w[illegible] to recalculate the true cost of their [illegible] engineering efforts.

Michael R. Mur[illegible]
Syracuse, N[illegible]

CORRECTIONS & CLARIFICATIONS

"Why United nixed USAir," (In Business This Week, Nov. 27) should have said that United Airlines' debt was downgraded in 1993, not last year.

FOCUSING ON DIGITAL CAMERAS

It is not accurate to say that A[illegible] Computer's QuickTake 150 digital ca[illegible] ra holds only 16 shots at the hig[illegible] resolution—compared with Eastman [illegible] dak's and Logitech's 48 shots ("Not [illegible] picture perfect," Technology & [illegible] Nov. 20). Images shot with the Qu[illegible] Take 150 are always at a resolutio[illegible] 640 x 480 pixels, whether the user [illegible] stored 32 or 16 shots. The differen[illegible] one of relative quality affected by [illegible] amount of compression applied to [illegible] image, not resolution. This is an im[illegible] tant distinction that makes our prod[illegible] a better choice for many kinds of us[illegible]

Perhaps most important, we take [illegible] sue with Wildstrom's statement t[illegible] "...all [the cameras] are built aro[illegible] Kodak technology." While partne[illegible] with Kodak for key technology [illegible] manufacturing, Apple made signific[illegible] design and product enhancements to [illegible] prove overall functionality and user [illegible] isfaction. These enhancements incl[illegible] transfer speeds that are more than [illegible]

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Editors' note: BUSINESS WEEK based its statement that the cameras are built around Kodak technology on the fact that Kodak had designed the imaging system.

HAVE WORKERS REALLY GOT THEIRS?

"Workers finally get theirs" (News: Analysis & Commentary, Nov. 27) was overly optimistic. The lone statistic relied on—that 70% of workers are in jobs where wages have increased in the last year—is meaningless when coupled with news that wages rose only 2.7% in the year ended Sept. 30. This increase is the lowest in 20 years. The only reason this pathetic increase outpaces the cost of living is ultralow rates of inflation.

At the same time, corporate profits rose 48% in the first quarter of 1995 alone. The productivity gains of the 1990s are felt in corporate coffers and on Wall Street, but they have yet to benefit those ultimately responsible for the recovery—American workers.

Will workers ever get theirs? Let's hope so. But let's not exult prematurely: It hasn't happened yet.

Don D. Sessions
Mission Viejo, Calif.

COLIN POWELL WOULD SHINE IN A CORNER OFFICE

Your article contained a quotation from me that implied Powell may not make a good business executive ("Colin Powell: Four-star CEO," News: Analysis & Commentary, Nov. 27). This inference was taken out of context, as my feeling is exactly the opposite.

My point was that industry knowledge and experience are important and are certainly helpful to any business executive. However, the role of the CEO requires a higher level and more demanding skills—including leadership, integrity, balance, and judgment. Colin Powell has these qualities in abund and would provide superb leadersh any institution.

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HE BEST BUSINESS OOKS OF 1995

rom global power to intrigue in the boardroom, from sharp ideas to prickly personalities, this year's .0 business books cover an array of rbing subjects.

a competitive world, global eco- c might is fleeting. Is Japan begin- to fade, as some observers say? from it, says Eamonn Fingleton in *dside: Why Japan Is Still on Track vertake the U. S. by the Year 2000* ighton Mifflin). In what our review- ormer Tokyo Bureau Chief Robert , called a "prodigiously researched engagingly argued" work, Fin- on asserts that, in spite of the ous problems, Japan continues how inordinate competitive cle. And rather than putting rden on exporters and con- ers, the mighty yen, he says, one of the principal levers" of n's power.

ost provocatively, Fingleton con- ls that the Japanese system, with ndustrial targeting and research and elopment collectives, "is not capital- at all but a new formulation that is harp and portentous a break from talism as capitalism was from feudal- ." Although occasionally given to mism and overstatement, *Blindside* vides a novel, audacious take on the ld's second-largest economy.

nother global power—albeit a less spicuous one—is the subject of Ste- Solomon's *The Confidence Game: v Unelected Central Bankers Are erning the Changed World Economy* non & Schuster). Solomon scopes in the masters of the world economy, central bankers.

tarting with a fascinating account Federal Reserve Chairman Alan enspan's effort to limit the damage he 1987 global stock market crash, *Confidence Game* often "reads more a thriller than a treatise on mone- y affairs," according to our reviewer, liam Glasgall. In keeping with the k's title, Solomon demonstrates how tral bankers—even when they're not e what action should be taken—have nd they can talk away many near-cri- . But the author warns of a creeping ger: In the quest for prosperity, na- nal governments are transferring more and more authority to the central bankers.

All nations pursue prosperity—but only a few find it. What do such global powerhouses as Japan, Germany, and the U. S. have in common? They're all "high-trust" societies, says Francis Fukuyama, Rand Corp. senior social scientist, in *Trust: The Social Virtues and the Creation of Prosperity* (Free Press). Despite a sometimes ponderous style and a tendency to run on, Fukuyama doesn't shy away from the big questions—and he has a way of seizing on current hot topics.

Here, Fukuyama addresses the relationship between healthy community life and wealth creation. And he asserts that selfish behavior, often extolled by economists, can be self-defeating. For a society to prosper, he says, it must enjoy a high level of "spontaneous sociability," under which its members tend to form and join a range of voluntary organizations, from sports societies to religious groups. These in turn prepare citizens to work cooperatively in large, private companies that are able to amass capital and develop technologies efficiently.

In contrast, the citizens of low-trust societies such as Italy, China, and France tend to avoid people who are not part of their immediate families, thus crippling attempts to build corporate structures. The analysis ignores numerous key issues, said reviewer Christopher Power—including the current difficulties faced by "high-trust" Germany. But just by tackling such major questions, Fukuyama has his readers reaching for their thinking caps.

Tasty food for thought is also provided by *The Winner-Take-All Society* (Free Press) by Robert H. Frank and Philip J. Cook, professors of economics and public policy, respectively, at Cornell and Duke Universities. The star system, according to which small differences in performance result in huge differences in rewards, has long been the rule in sports and entertainment. Now, say the authors, such winner-take-all markets are found throughout the global economy, with disastrous results.

The concentration of huge rewards among a handful of winners—in business, the media, law, medicine, higher education, and elsewhere—has dramatically widened the gap between rich and poor, they say. Moreover, the lure of huge gains skews the career choices of the next generation, as too many youths strive to become the next Michael Eisner or Madonna. And the pursuit of

BLINDSIDE
Why Japan Is Still on Track to Overtake the U.S. by the Year 2000
By Eamonn Fingleton

BUFFETT
The Making of an American Capitalist
By Roger Lowenstein

THE CONFIDENCE GAME
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By Steven Solomon

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The Mandate for New Leadership
By James Champy

SERPENT ON THE ROCK
By Kurt Eichenwald

SILICON SNAKE OIL
Second Thoughts on the Information Highway
By Clifford Stoll

STARTUP
A Silicon Valley Adventure
By Jerry Kaplan

TRUST
The Social Virtues and the Creation of Prosperity
By Francis Fukuyama

THE WINNER-TAKE-ALL SOCIETY
By Robert H. Frank and Philip J. Cook

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blockbuster movies and best-selling books has led to a dumbing-down of culture. How to curb this mania to be No. 1? Here, the authors fall short, said reviewer Kathleen Madigan. Nevertheless, *Winner-Take-All Society* frequently scores a bull's-eye.

The target of *Serpent on the Rock* (HarperBusiness), by *New York Times* reporter Kurt Eichenwald, is scandal-plagued Prudential-Bache Securities Inc. Between 1980 and 1990, Eichenwald says, Pru-Bache engaged in "the most destructive fraud ever perpetrated on investors by Wall Street." It sold more than $8 billion in risky limited-partnership offerings—resulting in losses running to hundreds of millions.

Who was to blame? Eichenwald fingers "a small group of executives who cut corners or ignored problems as they promoted the firm and built personal empires." The limited-partnership deals provided lavish lifestyles for these execs—and vanished life savings for numerous investors. Reviewer Leah Nathans Spiro found the biggest heroes of the tale to be the state regulators who pushed to win a reasonable settlement for the unhappy investors. One moral: The system of state securities regulators, often said to be unnecessary, shouldn't be abandoned.

A very different ordeal in executive ranks is the subject of James Champy's *Reengineering Management: The Mandate for New Leadership* (HarperBusiness). Specifically, Champy's solo sequel to *Reengineering the Corporation*, which he co-authored in 1993 with CSC Index Consulting Group colleague Michael Hammer, points out the shortcomings of many efforts at "reengineering"—or rethinking and redesigning basic business practices.

"The revolution we started has gone, at best, only halfway," Champy writes. Through interviews with managers who have executed successful reengineering efforts at such companies as Wisconsin Energy, Intel, and Frito-Lay, Champy attempts to show readers how to overcome the hurdles. Reviewer John A. Byrne found much of this oral history repetitive and uninformative. Still, he said, "managers awash in the ugly chaos of tearing apart their companies will find guidance and consolation here."

Two very different managers who were also inventors-*cum*-entrepreneurs provide the fodder for valuable business books. Neil Baldwin's *Edison: Inventing the Century* (Hyperion) delineates the life and creative processes of Thomas Alva Edison. Among Edison's well-known contributions: the light bulb, the phonograph, and the motion picture. Yet along with such successes, Edison stubbornly stuck by numerous errors in judgment—for example, calling radio a "fad."

Today's research and development wonks might be hard put to adopt Edison's favorite method of problem-solving: Simply try everything. But Baldwin shows Edison to be equally adept at creating systems, such as Edison Electric Light Co., a predecessor of General Electric Co. that manufactured and installed everything required to illuminate the night. Thus, as reviewer Peter Coy noted, "in an era when how-to titles on management and creativity seem to flood into bookstores, readers in search of inspiration could do worse than to read this richly detailed biography."

Is an infatuation with computers undermining our libraries? Was management Edison's true genius? Are the French too distrustful? To find out, see 1995's crop of business books

In *Startup: A Silicon Valley Adventure* (Houghton Mifflin), Jerry Kaplan describes the experiences of an equally ambitious, but far from equally successful, inventor: himself. In 1987, Kaplan launched one of Silicon Valley's hottest outfits, GO, which attempted to pioneer computers that would translate handwritten scribbles into computer text. By 1993, GO—along with $75 million in investment—was gone.

Kaplan tells of his brushes with such titans as Bill Gates and John Sculley, both of whom wanted in on the action. Sculley's Apple Computer merely flirted with using Kaplan's system, and Gates's Microsoft, says a GO exec, "ripped off our stuff." But it was investor AT&T that finally pulled the plug, ending GO's near-constant quest to stay afloat. Such engrossing details, said reviewer Kathy Rebello, make for "a delectable account of what it's like to try to spin a dream into Silicon Valley gold."

Such dreams are often merely a prelude to regret. Certainly, the visions of nirvana in cyberspace are overblown, says Clifford Stoll, author of *Silicon Snake Oil: Second Thoughts on the Information Highway* (Doubleday). He is the one about how the Infobahn will educate our kids, revive democracy, and allow cyber citizens to overcome poverty and deprivation? Tell me another, says Stoll, an astronomer-turned-computer-security expert who once helped to hype the Internet.

The current infatuation with computers, Stoll insists, is endangering our libraries, which are abandoning books for computers—and a jumble of context-free data. Our education system, he says, is also losing out, as funds are diverted into the eye candy of "edutainment" software. And the democratic forums of online chat rooms are nothing more than a other vast wasteland, dominated by vapid chatter and extremist bullies. Are such claims merely the ravings of a Luddite? No, said reviewer Geoff Lewis: Stoll shows himself to be "a thoughtful, wry observer... who also happens to be a serious scientist." If we stare into the online future, we would do well to keep Stoll's cautionary words in mind.

One who seems ever unruffled by the future is investor Warren Buffett. Perhaps that's why so much about the Oracle of Omaha gets written—and read. The best book by far on this legendary character, said reviewer Chris Welles, is Roger Lowenstein's *Buffett: The Making of an American Capitalist* (Random House). As is his usual practice, Buffett neither helped nor hindered the author. Yet Welles found that Lowenstein had produced a "lively, smoothly written, and elaborately researched" biography of the superinvestor, whose portfolio racked up a compounded annual gain of 28.6% between 1957 and 1994.

How does Buffett do it? "It all comes from Graham," he once said—Benjamin Graham, that is, the father of "value investing," which holds that every stock has an intrinsic value independent of the market's assessment. But, of course, it's Buffett's extra *je ne sais quoi* that really does the trick, keeping Buffett watchers guessing. "Much about Buffett remains obscure," admits Lowenstein. It's just such mysteries that inspire journalists to keep digging—and readers to keep searching business books for answers.

BY HARDY GREEN

Green is BUSINESS WEEK's Books Editor

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Mike Tigson, Logistics Planning Manager
Philips Semiconductors, Sunnyvale, CA

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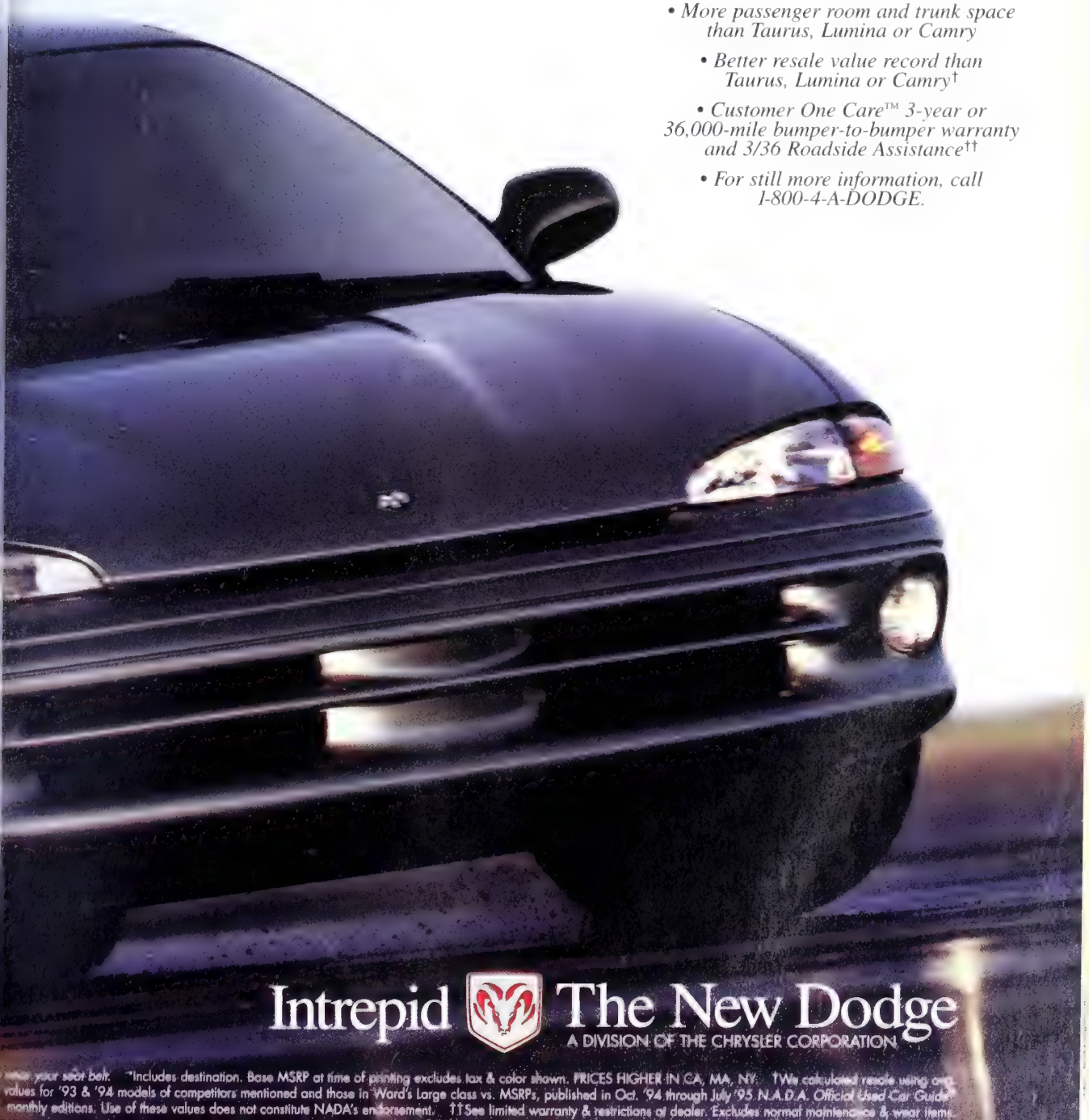

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BY STEPHEN H. WILDSTROM

CD-ROMS THAT STEER YOU RIGHT

Taking a trip? Not all planners and street atlases are created equal

Planning a trip can be a good part of the enjoyment of a vacation. Today, the combination of maps, computer graphics, and intelligent software can make the process a lot more fun.

Market researchers have long used computerized map databases, but now the technology is reaching consumers. The programs come in two flavors: Trip planners suggest routes, attractions, and places to eat and sleep. Street atlases give detailed maps that can pinpoint addresses and show every block in a city or town.

MAP IT OUT. I tried several Windows CD-ROM packages (table) and found that all had their strengths and weaknesses. DeLorme Mapping's programs aren't the easiest to use. But the point of this software is maps, and DeLorme, an old-line mapmaker in Freeport, Me., has the best, hands down. On-screen, its maps combine a wealth of detail with great readability. On paper—a color printer is desirable but not essential—they rival commercial printed maps. (Sample maps can be viewed on BUSINESS WEEK Online on America Online.)

DeLorme's *Map 'n' Go* trip planner is probably best for experienced travelers because it lacks the "wizards" that automate such tasks as choosing overnight stops found in the Microsoft Corp. and Rand McNally & Co. versions. With DeLorme, you type in the origin, destination, and any points you want to hit along the way. The program creates a set of strip maps resembling a AAA Triptik, including driving instructions, distances, estimated times (based on your specifications for speeds on different types of roads), and page references to a companion highway atlas.

You would expect good maps from Rand McNally, and for the most part, *TripMaker* and *StreetFinder* deliver. Unlike the utilitarian approach of DeLorme, *TripMaker* offers vacation suggestions on the sort of things you like to do and the region you plan to visit. The trip maps it produces, while not as detailed as DeLorme's, include reference keys to the *Rand McNally Road Atlas*, which comes with the program.

StreetFinder includes a novel feature that sounds great but turns out to be not very useful. You can plot a course through a city, which the program converts to written instructions. But the database lacks the detailed local knowledge—one-way streets, turn restrictions, freeway exit numbers—needed to make the instructions usable.

DINING, LODGING. Microsoft's *Automap* products were a disappointment. The *Road Atlas* trip planner is similar to Rand McNally's but, in an extreme case of a flaw that showed up on all the programs, drastically underestimates speeds on congested urban roads. For example, it computed that a 44-mile drive through the Washington suburbs could be done in 47 minutes. And the *Streets* program won't allow users to merge maps from its database, meaning you can't view both ends of New York's George Washington Bridge on the same screen.

Compton New Media Inc.'s $60 *Street Guide* crams highway and street maps onto one CD. But the program lacks trip-planning features and the search tools a good street atlas needs. It comes with a copy of the *American Automobile Association Trip Planner*, a CD-ROM guide to attractions, dining, and lodging.

These programs are just the beginning of computerized travel. An Avis Inc. trial program uses a Trimble Navigation Ltd. satellite-based system to pinpoint your rental car's position on an *Automap* display. In the not-too-distant future, you'll be able to plan a trip on your desktop computer, then follow your progress on a built-in display in your car. Now, if they could only do something about the traffic.

On the Road

	Price
DELORME MAPPING	
800 452-5931	
▶ *Map 'n' Go*	$39
▶ *Street Atlas USA*	79
MICROSOFT	
800 457-9530	
▶ *Automap Road Atlas*	40
▶ *Automap Streets*	70
RAND McNALLY	
800 671-5006	
▶ *TripMaker*	50
▶ *StreetFinder*	60

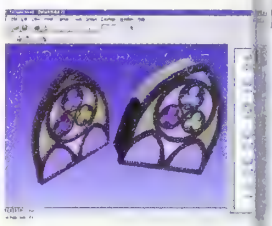
DATA: COMPANY REPORTS

BULLETIN BOARD

SOFTWARE

3-D FOR WINDOWS 95

Three-dimensional drawing programs are a mainstay of computer-assisted design work, but they have long required the horsepower of an engineering workstation to perform well. Now, 3D/Eye Inc. (800 946-9533), an Ithaca (N. Y.) software company, has



brought 3-D drawing and model-building to the desktop with Trispectives for Windows 95. The $299 program requires some effort to learn—visualizing 3-D hasn't gotten easier since you struggled through solid geometry. But it allows even those with limited drawing skills to create realistic 3-D models that can easily become illustrations in a printed document or slide presentation.

SMART BEEPERS

HELP ON THE ROAD

Two-way paging technology is brand new, but already the ability to receive information and send back short bursts of data is moving way beyond the beeper. Motorola, SkyTel and Prince have teamed up to develop AutoLink, a system that will summon roadside assistance, track down a car's location, and provide automatic notification if someone attempts to break into an automobile. The system has a paging function, too. First units will be on fleets, with factory installation in new cars expected to be available for 1998 models.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

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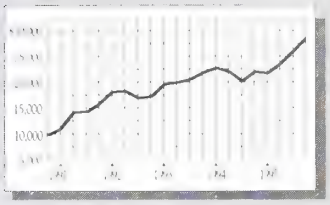

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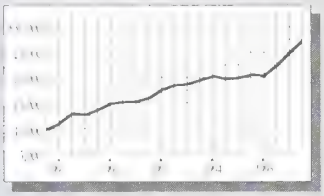

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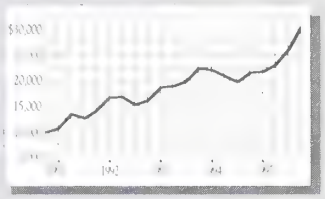

Value of investment: $30,720
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Since inception (1/21/88) +18.45%

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BY RUDI DORNBUSCH

FREE MARKETS WORK BEST– BUT THEY NEED A LITTLE TWEAKING

MOVE OVER: Statism has had its time on the stage. Only free economies assure growth along with opportunity

In the broad swing of the ideological pendulum, free-market economics has become the antidote to a half-century of failed statism. It's become clear that competition, self-reliance, and profits are the driving engines of prosperity. There is no choice. Moreover, the uncovering of vast corruption in statist economies—France, Italy, Japan—makes the case stronger. Wherever government gets a say in the market, officials can routinely expect big-time payoffs.

Still, many doubt the promise of free markets. Transition, restructuring, and reform all too often seem to create inequality, wipe out an established middle class, or produce windfall fortunes. In Russia, antimarket forces stand a good chance in the upcoming elections; in Eastern Europe, retreaded communists win at the polls; in Latin America, skeptics of the neoliberal experiment command a growing audience. In Western Europe, there is much talk of free markets but not "the American way"—i.e., all-out competition, let the chips fall where they may.

But at this critical juncture, there is no third way. Statism has had its time on the stage. Pervasive regulation, public-sector enterprises, a bloated welfare state with crushing tax burdens for those who work—and absurd levels of subsidies for those who don't—have failed as effective alternatives to decentralized decision-making and the hard edge of incentives, private choices, and their consequences.

NO SPECIAL FAVORS. The transition to free markets is controversial because the broad spread of prosperity often takes a long time to come about. In the meantime, the redistribution of opportunities, income, and wealth is the most visible result. Statist economies focus on creating jobs for everybody. As a result, employment is high, and productivity is low. Shifting to free markets involves job losses and wage cuts for many. True, new opportunities open up, but for every winner there are plenty of losers.

Moreover, the move to free markets wipes out the privileged position of businesses, workers, and politicians who benefited from government intervention in the economy. In the great reshuffling, those who relied on protection and favors from the government are out in the cold, while innovators who spot new opportunities walk away with huge returns. The public sees the windfall gains but doesn't see the risk-taking—and certa doesn't appreciate the proposition that wi rewards, progress will stall. Of course, redistribution of wealth is often only one pocket to another: Ukraine's comm bosses got rich in capturing the meaties sets in a self-administered privatization.

"I am from the government, I am he help you" rings hollow today. Econo leaves no doubt on the basic proposition: vate initiative with a minimum of gov ment interference is the surest way to cr the biggest pie. There is no reason to wai slow, or be selective.

SOCIAL COHESION. The wholehearted a tion of the free market will leave many mixed feelings. How to make a rough tr tion come about more easily? You don't to feel good about the market—just reco the bankruptcy of all forms of statism. N avoid making a difficult step even worse: cessful reform needs an environment of p perity and opportunity. Labor markets be flexible; otherwise, restructuring just tr lates into mass unemployment.

At the same time, free markets must b diciously supplemented. There is a nee regulate so as to avoid market failures, f finance to anticompetitive practices. M over, the market-determined distribution o come and wealth may pull society ap Creating opportunities by education and removing obstacles to competition imp by governments or unions is important, some fiscal redistribution that stops sho being a disincentive. The aspiration of stri a balance between market forces and s cohesion seems a good idea even if in pra it has culminated in too much "social" too little "market." In the U.S., the rus abolish welfare should also include jobs, c care, and education vouchers to help reb the social cohesion essential for a functio market economy.

Finally, the worst enemy of the transi to a free market is a central bank sta fights against inflation or unduly conce with maintaining a hard currency. Stable moderate inflation is important for econo performance, but there is a time and place everything. In Europe today, overdoing flation fighting and playing desperate cur cy games do more to harm the cause of f market reform than all the ideological de put together.

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

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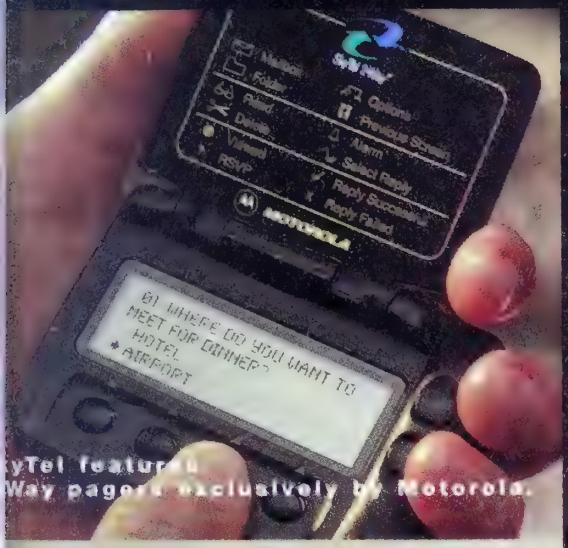

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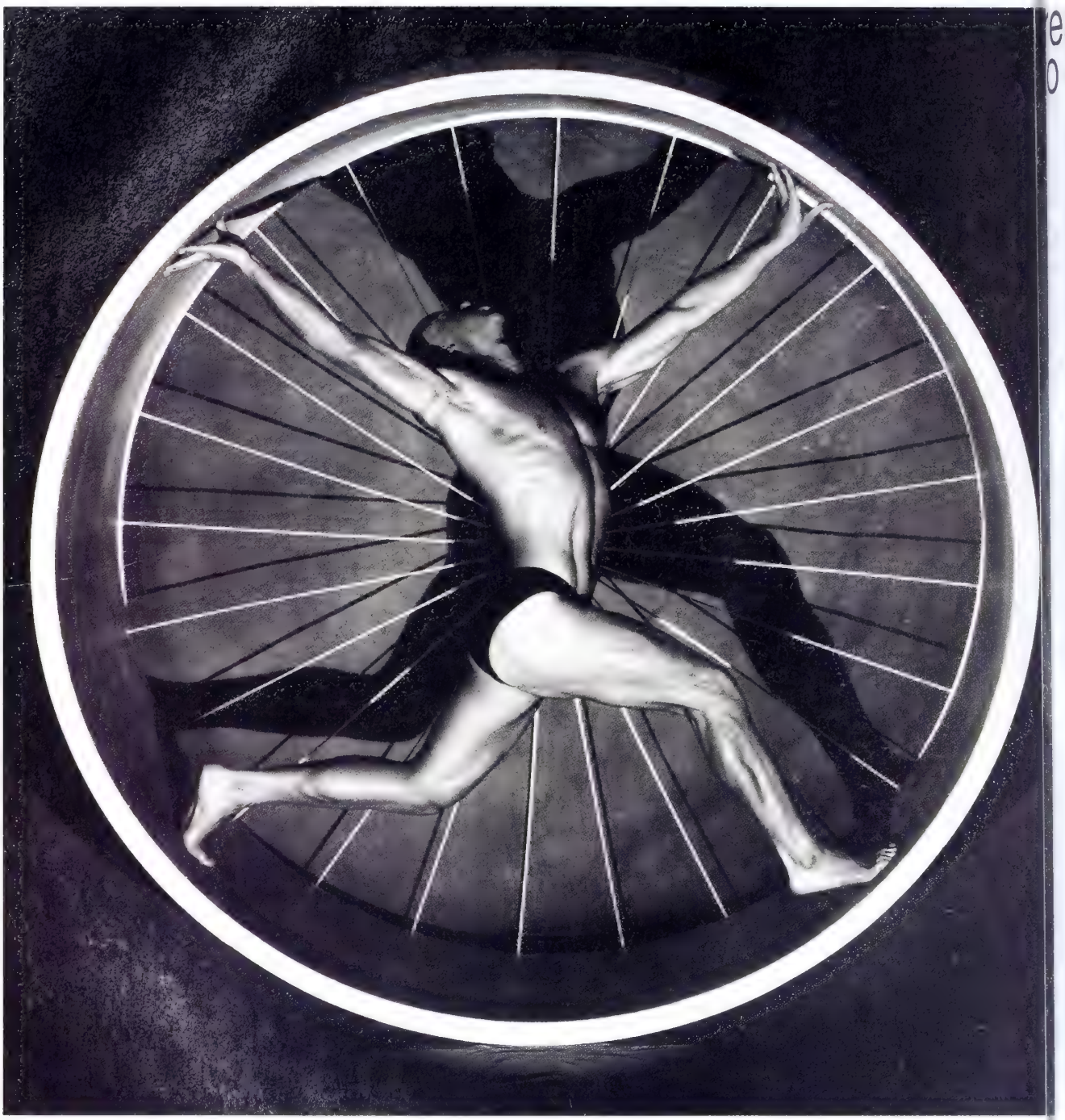

Otis Carrier Pratt & Whitney Sikors

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- helicopters
- automotive systems
- elevators
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(Note: pick six)

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BY GENE KORETZ

WHAT'S SPOOKING HOUSE BUYERS?

Debt and layoff jitters are rife

A lot may be riding on the ability of America's housing sector to bolster the economy in the year ahead. Residential investment is a bellwether—normally leading the way in upturns and downturns—and it spiked up during the summer in the wake of sharply falling interest rates. Since then, though, it has been losing ground. "The housing recovery has apparently stalled," says economist Lacy H. Hunt of HSBC Holdings Inc.

Recent omens are hardly cheerful. Although mortgage rates are now at their lowest in two years, housing starts declined in October for the third month in a row. Meanwhile, existing-home sales dropped 1.9% in October, even as average prices of such houses fell 1.1%—on the heels of a 2.7% drop in September.

To be sure, the Mortgage Bankers Assn.'s index of mortgage applications is up. But economist Maury N. Harris of PaineWebber Inc. thinks this may be partly due to a shift toward fixed-rate mortgages, the specialty of mortgage bankers. More important, the National Association of Home Builders reports that its housing market index, which reflects its members' latest views, posted its largest drop in 10 years in November.

Why the sag in housing—in the face of such low rates? Both Hunt and Harris point to the sluggishness of job and income growth. With household debt at a record 92% of aftertax income and with mortgage and installment-debt delinquencies rising, many consumers feel overleveraged, says Hunt.

Harris also notes that banks surveyed by the Federal Reserve in November reported they had started tightening mortgage-loan standards—for the first time since 1993. And feelings of job insecurity, reinforced by the recent surge in corporate layoffs, may be deterring some potential home buyers.

If the housing rebound has indeed been derailed, warns Hunt, it may take strong stimulative action by the Federal Reserve to put it back on track. "My fear," he adds, "is that such action will be too little and too late."

YULETIDE BOUNTY IN OREGON

Shoppers reap a state tax rebate

Though most U.S. retailers are worried, there's one state where the Christmas outlook is anything but gloomy. "In Oregon," notes economist John W. Mitchell of U.S. Bancorp in Portland, "consumers are getting a $163 million present from the state just in time for holiday shopping."

The gift comes courtesy of Oregon's booming economy and unusual "kicker law" governing the disposition of excess tax revenues. Passed in 1979, the law requires the state to refund personal and corporate income tax revenues that come in more than 2% above the amounts projected in its biennial budgets.

Such rebates usually take the form of credits to be applied against tax bills due the following April. Indeed, that's the way corporations will receive their rebates of some $167 million. But this year, the GOP legislature decided to return individuals' share of the bounty early—through checks mailed at the start of December. For consumers, Mitchell figures, the average windfall comes to a tidy $100 per taxpayer.

IT AIN'T JUST PEANUTS

A princely tab for U.S. farm programs

How much are agricultural price supports costing U.S. consumers? In the case of peanuts and sugar, the numbers are documented by numerous studies.

Dating from the 1930s, the peanut program aids growers via price supports, production quotas, and import curbs. According to the General Accounting Office, the U.S. support price ran about 45% above the world market price in the 1980s—providing quota holders with juicy net returns of at least 51% after costs.

What's more, in 1991, just 6,182 producers—or 22% of America's peanut farmers—owned 80% of the quotas, and at least half of the quotas are rented out to other producers. The GAO reckons that consumers have shelled out as much as $500 million extra a year for peanuts because of the program.

Similarly with sugar: In recent years the U.S. price has been kept at almost twice the average world level—through import quotas, a high tariff, and domestic marketing allotments. While the program's annual costs to consumers have been estimated at $1.4 billion to $1.6 billion, the GAO figures that about 50 farms—less than 1% of all sugar growers—receive 42% of the $336 million in benefits reaped by growers, or an average of $940,000 apiece.

Given the costs and Congress' zeal for deregulation, the days of the peanut and sugar programs should be numbered. But so far, they have survived the budget wars relatively unscathed.

ASIA'S LOFTY FACTORY RENTS

They tower above North America

The world's nine most expensive places for industrial space, with annual rents from $11 a square foot in Kuala Lumpur to $37 in Tokyo, are all in Asia, reports Colliers International Property Consultants Inc. And some of the tightest markets are in Eastern Europe: Prague and Budapest have vacancy rates of 0% and 2%, respectively. (The highest vacancy rate in Colliers' survey is Mexico City's 25%.)

By contrast, the cheapest cities for factory or warehouse space are in North America. Of the bottom 20, with rents of $2 to $3 per sq. ft., 14 are in the U.S., and 5 in Canada. Most of America's bargain cities are in the Midwest, South, or Southwest. The best deal in the 83-city tally: Kansas City, with rents of just $2 a sq. ft.

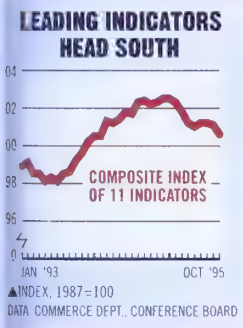
:Y JAMES C. COOPER & KATHLEEN MADIGAN

THERE MAY BE A RATE CUT UNDER THE TREE

U.S. ECONOMY Christmas is in the air, but will the Federal Reserve be ı a gift-giving mood when its policy committee meets n Dec. 19?

Until recently, the betting was that the Fed wouldn't ut interest rates until the budget squabble is over nd a deficit-cutting deal is in hand. But amid new igns of softness in the economy—and persistently ood news on inflation—a rate cut may be shaping up n economic grounds alone, even if Congress and the Vhite House remain at loggerheads.

Top Fed officials now concede that the economy as taken on a softer tone in the fourth quarter, led y an inventory adjustment that is taking longer than xpected. They also believe that technological change nd its impact on job insecurity is, at least for now, miting upward wage pressure.



The same policymakers also assert that the Fed responds only to the economy and the financial markets, suggesting that a budget deal is not necessarily a prerequisite for an interest-rate cut. Vice-Chairman Alan S. Blinder has been especially outspoken in his support for an easing in policy, but he also says that a monetary-fiscal *quid pro quo* ı not proper Fed policy.

What the central bankers will pay particularly close ttention to are weak-looking retail sales, the malaise in ıanufacturing, and signs that housing is retracing ɔme of its earlier gains despite low mortgage rates. Reports from a broad range of economic players all look aler, and the composite index of 11 leading indicaɔrs dropped 0.5% in October (chart). While these sigals aren't flashing recession-red, they do at least shine aution yellow.

NDEED, WHEN THE COMMERCE DEPT. unveils its ew chain-weighted measure of gross domestic product, lso on Dec. 19, the economy's yearly growth rate for 995 could shift downward as much as a full percentage oint compared with the current 3% pace.

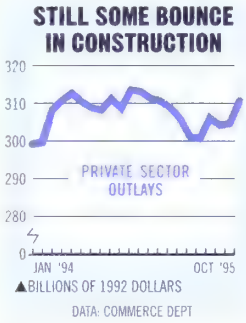
The new measure, which will replace the present onstant 1987-dollar readings, is likely to peg thirduarter GDP growth in excess of 3%. But by all indicaɔns so far, the fourth-quarter pace is shaping up to be ɔell below that. The new numbers will suggest more slack in the economy and also more room for the Fed to cut rates.

The economy's more somber pace was evident in the Fed's own assessment of regional activity prepared for the upcoming meeting. The Dec. 6 report, known as the beige book, said national economic activity continues to expand, "but at the somewhat slower pace reported in the last beige book."

The report characterized early holiday sales as mixed, but it did point to strength in construction, as evident in the Commerce Dept.'s October report on construction spending (chart). Outlays jumped 2.7%, the largest increase in 3½ years, led by a surge in public construction.

The Fed survey also reported that labor shortages in some areas were lifting wages, a point that gave the bond market pause after the report's release. However, the roundup also noted widespread reports of retail price discounting and that inflation remained in check.

THE BOND MARKET seems increasingly convinced that a softer economy and an eventual budget deal will lead to less inflation potential and lower interest rates. The yield on the benchmark 30-year Treasury bond briefly slipped below 6% on Dec. 4 for the first time in two years, and on Dec. 6, the yield dipped as low as 5.96% before the beige book came out, sending it back to 6.04% at the close. The strength in bonds is helping to fuel the surge in stock prices.



The past year's drop in bond yields of more than two percentage points has occurred with just a single quarter-point cut in the overnight federal funds rate by the Fed on July 6. This decline has managed to produce the flattest yield curve in years, with only a half-point of difference between the rates on the three-month Treasury bill and the 30-year bond.

A more normal, upward-sloping curve seems most likely to be restored with an adjustment at the short end. The fall in long-term yields in the face of little movement in short-term rates suggests an outright reduction in inflationary expectations. That alone would be grounds for the Fed to justify a further easing of short rates.

Of course, with the bond market already expecting up to a half-point of Fed easing, along with a credible

deficit-cutting budget deal, the danger is a backup in rates if these events fail to materialize at a time when the economy is looking less hardy.

In particular, after-Thanksgiving retail sales still look weak by nearly all readings, including those from Telecheck Services, the International Council of Shopping Centers, and Mitsubishi Bank/Wertheim-Schroder. The widely followed survey by *Johnson Redbook Service* showed that sales at department and chain stores fell 1.6% for the week ending Dec. 2, getting the month off to a poor start.

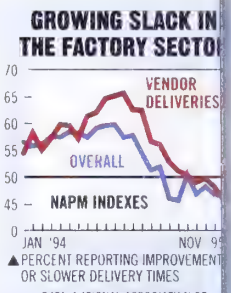
At the same time, the factory sector remains listless, with growing evidence that further inventory adjustment is restraining output and employment. Durable goods orders dipped 1% in October, although they had risen in both August and September. And first-time jobless claims are trending higher.

FACTORY SLUGGISHNESS continued in November, says the National Association of Purchasing Management. The NAPM's index of industrial activity slipped further in the month, to 46.5% from 46.8% in October. A reading below 50% implies that activity—measured by a composite of orders, output, employment, inventories, and delivery times—is weakening. The index has been below that mark for four consecutive months.

The NAPM's index of delivery times is one of the many indicators known to strike the fancy of Fed Chairman Alan Greenspan. In November, an increasing percentage of vendors reported faster deliveries. That is a sign of increasing market slack and thus of warning price pressures (chart).

Indeed, the NAPM's price index showed that the prices paid by companies for materials and supplies fell for the fourth consecutive month, and the purchasers reported little success in passing along price hikes that had occurred earlier in the year.

Greenspan also has taken note of a special question put to the purchasers about inventories. The survey shows that a sizable 49% of the respondents characterized inventories of final goods as being too high. The risk is that an inventory adjustment, which provoked the July rate cut, if drawn out, could feed back on jobs and consumer spending.



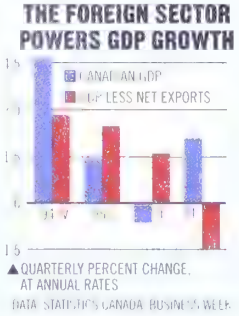
Against this backdrop of soft data, negligible price pressures, and bond market expectations, not to mention Vice-Chairman Blinder's public pressure for a rate cut, Greenspan might well accede to a small quarter point easing at the Dec. 19 meeting. A rate cut in December will do little to pump up this year's holiday sales, but it will help to spread good cheer in 1996.

CANADA

THIS TURNAROUND LOOKS A MITE TENTATIVE

The Canadian economy staged a third-quarter rebound, but the solid performance does not preclude a cut in interest rates by the Bank of Canada.

Real third-quarter gross domestic product grew at an annual rate of 2.1%, after falling 0.6% in the second quarter. But almost all growth stemmed from booming U.S.-Canada trade (chart). Exports surged by a 9.9% pace while imports grew by 0.8% last quarter. On Nov. 30, Statistics Canada reported separately that the current account deficit narrowed to C$3.39 billion (U.S. $2.5 billion) in the third quarter, the smallest deficit in eight years.



The turnaround in trade is the result of a cheap Canadian dollar and a robust third-quarter economy in the U.S., which purchases 80% of Canada's exports. Export growth may not be as strong this quarter, though, because the U.S. economy is slowing and the Canadian dollar has stabilized at an admittedly weak exchange rate of around 73 U.S. cents.

That means Canadian growth will depend on domestic demand, and the news here is not all good. Business spending is likely to rebound after it unexpectedly fell by 2.2% last quarter. But consumer spending, up 2.5% in the third, may be held back by extremely low confidence readings and a weakening job market. In November, the unemployment rate remained at 9.4% as payrolls lost 44,000 jobs after a small 20,000 gain in October.

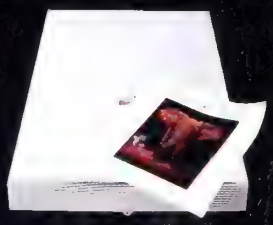
The economy also will be hurt by cutbacks in public spending at both the federal and provincial levels. On Nov. 29, the recently elected government in Ontario announced the largest spending cut in its history: a total of about 10% for the 1996-97 fiscal year.

Private analysts forecast that real GDP is likely to grow at about 2% this quarter, but tighter fiscal policy, along with the firmer tone of the dollar, is raising expectations in the financial markets of a rate cut by the Bank of Canada. The odds are, though, that the BOC will wait until after the U.S. Federal Reserve sets its own agenda on Dec. 19.

After failing to program his VCR for the last time, Tiny welcomed the simplicity of his HP ScanJet scanner.

Introducing the HP ScanJet 4c

From set up to start up, from software installation to image capture, the HP ScanJet 4c makes the whole scanning process easier. 2400-dpi enhanced resolution (600-dpi optical), internal 30-bit color, and 1,024 levels of gray produce documents that are rich, detailed, and impactful. The HP ScanJet 4c also includes image-editing software, OCR software for text recognition, and new software for electronic file distribution and management. For more information, call 1-800-SCANJET, Ext. 1022.†



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HEWLETT PACKARD

INTERNET

WIN 95, LOSE '96?

Microsoft still dominates the biz–but the Web is changing the rules

At the annual Comdex computer-industry gathering in Las Vegas last month, William H. Gates III passed several late-night hours playing high-stakes poker in a far corner of the Mirage casino. It's an old pastime from the 40-year-old Microsoft chairman's college days.

Now for the really high stakes. The tough hands. The wily adversaries. On to the Internet. Gates has been caught remarkably flat-footed by the birth of the raucous World Wide Web. He acknowledged as much last May when he fired off a widely leaked internal memo urging every employee to make the Internet a top priority.

Since then, quicker rivals, such as Netscape Communications Corp. and Sun Microsystems Inc., have grabbed the lead and are setting the agenda. In a series of stunning announcements during the first week of December, more than 30 companies—including IBM, Oracle, Apple Computer, and Silicon Graphics—committed to building Internet software around Sun and Netscape standards. Says James H. Clark, chairman and founder of Netscape: "The Internet basically blew apart [Microsoft's] whole strategy."

Now, Gates is scrambling to refine a game plan for the Web era. Returning to his Redmond (Wash.) office after a two-week trip to promote his book *The Road Ahead*, Gates wrestled with details of a Dec. 7 briefing with analysts and reporters. The event's purpose: to erase the public perception that Microsoft Corp. is lagging behind rivals—and lay out the company's role on the Net.

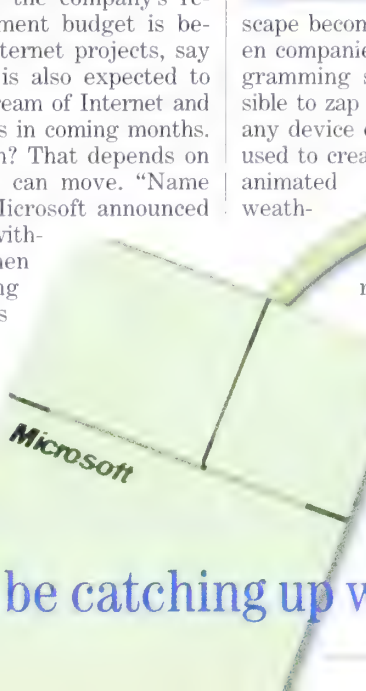
On the eve of the meeting, various initiatives were still being considered by Microsoft's brain trust—including supporting the Java programming language from the Netscape/Sun camp. Among the definite plans: the introduction of a product called VB Script, which, like Java, can be used to write applications that work across the Web; renaming the forthcoming Blackbird "authoring" language (originally intended only for the Microsoft Network) as Internet Studio; and repositioning MSN from a proprietary service to more of a Web site. The company is also accelerating plans to make all of its programs Web-compatible. For instance, its Internet Information Server will be included in versions of Windows NT.

MORE TO COME. Meanwhile, an ever-increasing portion of the company's research-and-development budget is being dedicated to Internet projects, say insiders. Microsoft is also expected to unleash a steady stream of Internet and Web announcements in coming months.

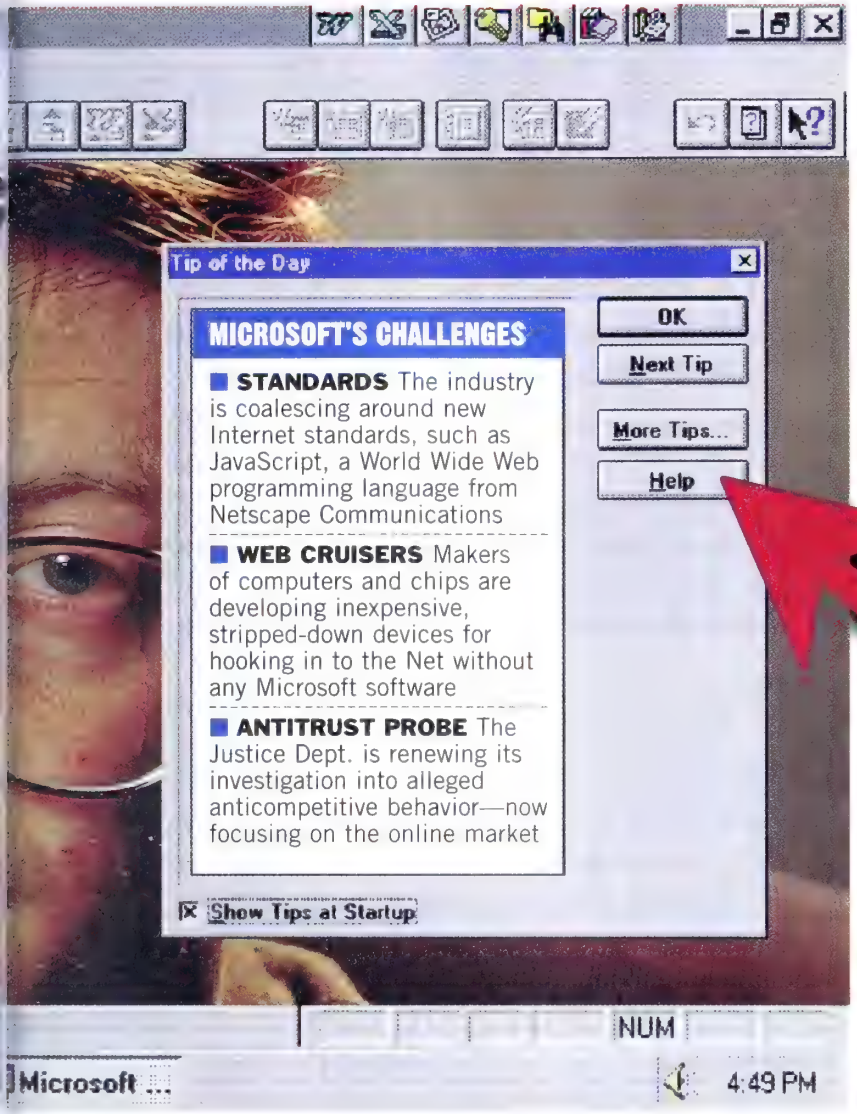
Will it be enough? That depends on how fast Microsoft can move. "Name one product that Microsoft announced that they shipped within two years of when they started talking about it," snipes Sun CEO Scott G. McNealy. With each new announcement, meanwhile, the coalition around Sun and Net-

scape becomes more formidable. A c[illegible]en companies are licensing Java, a p[illegible]gramming system that makes it p[illegible]sible to zap little programs—applets—o[illegible] any device on the Web. Applets can be used to create "active content"—say, an animated weather map that reflects changing conditions in real time or a lo[illegible] application with its own calculator.

In fact, programming such as Java may make it possible to cruise the Net without a PC—and without Microsoft software. A half-doz[illegible]



Microsoft's trickiest task will be catching up with Java–fa[illegible]



npanies, from Sun to Oracle to IBM, talking about low-cost Internet box- that would sell for a fraction of the ce of a PC. Some pundits predict that one companies will give these gadgets ay as they do cellular phones now.

Meanwhile, Java is spreading across computer landscape. Some 30 com- nies have signed up for JavaScript, a ogram from Netscape that makes eating Java applets much easier. It ll be included in the next version of etscape's popular Web "browser" and o will be distributed to developers it no cost over the Internet.

In the battle for publicity, Java has already won. In reality, the era of Web-based programming is just dawning, and Microsoft hasn't really lost anything yet. In fact, it has a major strength in its Visual Basic, a language now used by 3 million programmers to create Windows applications. The new VB Script, based on Visual Basic, will move those programmers to the Web. And Microsoft's Object Linking & Embedding (OLE) technology is being adapted to let software "objects" communicate over the Net, potentially to create Java-like applets.

In some quarters, Microsoft's technology is compelling. Marc Benioff, senior vice-president for Oracle's Web/Workgroup Systems unit, says his company plans to use both Java and Microsoft's VB Script. Microsoft, in turn, will use Oracle's browser technology.

Microsoft's biggest trump card is the huge base of customers who use Windows 95 and, increasingly, Windows NT. These days, Windows 95 is shipped with software for the Microsoft Network, which is being repositioned as a gateway to the Internet. The company also plans to include its Internet Explorer Web browser in future versions.

HIDDEN HAND. But does the market understand that? Gates admits he'll have to work to convince the world that his company can adapt to—and prevail in—the new order. "Java is the language that is the darling of the industry right now," concedes Gates. "It's a good example of how, in this industry, people are always looking for the next thing that will unseat the giants."

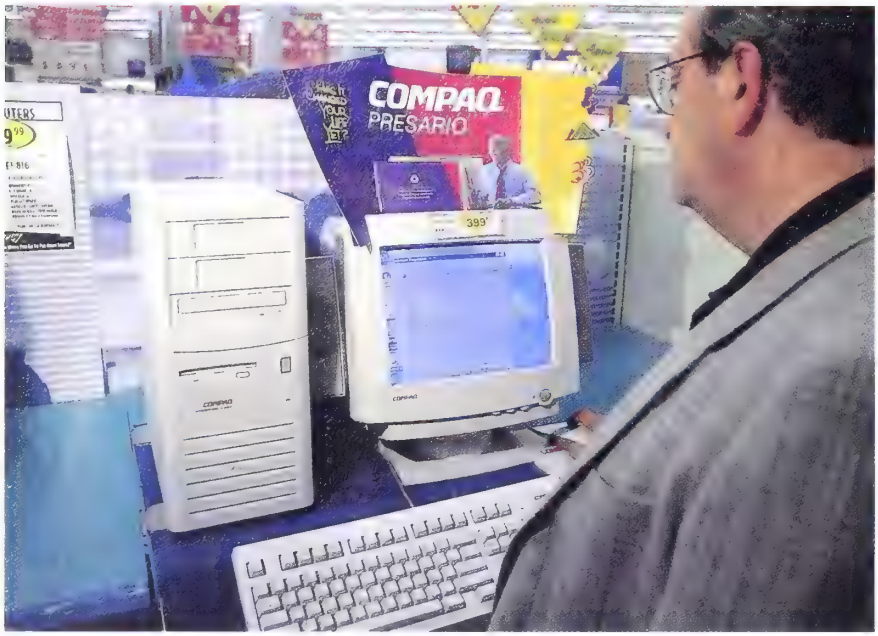
Ultimately, Microsoft may have to support Java. It's almost certain to build some Java compatibility into its Internet Explorer Web browser—perhaps early next year—so customers will be able to handle Java applets. Even so, the competition isn't discounting Microsoft's considerable clout. "I never write them off. They're still in a position of intense power," says Clark. Adds Netscape co-founder Marc Andreessen: "I don't think Microsoft has played its hand yet."

No question, Microsoft retains a mighty hand. Even as the Sun-Netscape gang was announcing its new recruits, the Justice Dept. was raising questions about Microsoft's alleged anticompetitive behavior. In recent weeks, the feds have sought information from online-service providers, including CompuServe Inc. and Netcom On-Line, signaling a new twist in its long probe. The question: Has Microsoft intentionally built into Windows 95 code that prevents rival software programs from linking a PC to online services and the Internet? Microsoft denies such accusations.

To date, the feds haven't shown a true willingness to take on Microsoft. And few industry experts think Microsoft's Internet woes are insurmountable. Says Tim Bajarin, president of researcher Creative Strategies Research International: "If they play their cards right and make sure future applications and programming languages are Internet-ready, they will come from behind and become a leader." There aren't too many, certainly, who will bet against Bill Gates.

By Amy Cortese in New York, with Kathy Rebello and Robert D. Hof in San Francisco, and Catherine Yang in Washington

cedes Gates: "[It's] the darling of the industry right now"



COME-ONS Circuit City has been giving away printers with PC purchases. Other stores are selling gear below cost to build traffic

RETAILING

IT'S BEGINNING TO LOOK A LOT LIKE OVERSTOCK

With sales lukewarm, PC dealers scramble to clear the shelves

For computer makers, the Grinch is not about to steal Christmas. But he may make a January appearance.

The fourth quarter is shaping up as a strong one, with retail sales of home computers up 35% over last year, to more than 3 million units. But for personal-computer makers and retailers, strong isn't good enough. They had hoped sales would double during the all-important holiday season—just as they did last year. If retailers ordered to their expectations, and there's evidence some did, look for fire-sale prices on popular entry-level models in January.

Fearing that prospect, stores are trying to clear their shelves by Christmas—to the glee of consumers. Among the goodies: Circuit City has been giving away printers with PC purchases, and Best Buy has sold computers below cost in some markets, hoping to build store traffic.

WORKING THE AISLES. Most chains are letting customers defer payments or finance charges. Computer City offers one American Airlines frequent-flier mile for each dollar spent. The deals are drawing in customers—if not the expected blockbuster crowds. "At this point, we're very happy with the Christmas quarter, and we expect it to continue," says Lawrence N. Mondry, executive vice-president for merchandising at CompUSA Inc. in Dallas.

So far, excess inventory seems limited to a few manufacturers. Apple Computer Inc. cut prices by as much as 25% and Hewlett-Packard Co. by about 10% shortly after Thanksgiving, an indication that computers were sitting in storerooms. Apple also hired 800 people to work the store aisles. But retailers say Apple's sales are still sluggish. "Apple is the biggest disappointment of the Christmas season by far," says a retail executive, who says sales at his stores are down 30% from last year. As for Hewlett-Packard, "it's seeing good sell-through, but retailers placed a huge bet on HP and have b[illegible] very large inve[illegible]ries," says Va[illegible] Zlotnikov, technol[illegible] analyst at N[illegible] York's Sanford [illegible] Bernstein & Co.

Even Packard [illegible] Electronics [illegible] seems to be do[illegible] well. For weeks, [illegible]mors flew that Pa[illegible]ard Bell was floo[illegible] with low-end mod[illegible] built around Intel Corp.'s Pentium [illegible] chip. But CEO Beny Alagem says: "[illegible] have no excess of Pentium 75s"—wh[illegible] start at about $1,500. Confirms one [illegible]tailer: "Not only doesn't Packard h[illegible] have an inventory problem, it is shor[illegible] product." Still, analysts expect its sa[illegible] to rise by only 20% to 30% this qu[illegible]ter—slower than the market is grow[illegible]

MOMENTUM. That's because Packard [illegible] is facing intense competition. L[illegible] Christmas, as the home-PC mar[illegible] swung toward Pentium models, Co[illegible]paq Computer Corp. didn't offer a[illegible] and IBM had underestimated dema[illegible] Now, both have plenty of home-orien[illegible] Pentium models and are doing w[illegible] Sean Burke, Compaq home-PC mark[illegible]ing director, says sales have been "v[illegible] solid overall for all of our produc[illegible] Other powerful players aggressively [illegible]tered the consumer market this y[illegible] including Hewlett-Packard, Dig[illegible] Equipment, and Japan's NEC.

Which companies are hurting mo[illegible] Big newcomers are taking market sh[illegible] away from no-name and store-bra[illegible] makers as the industry consolidates i[illegible] the top five players. Such brands [illegible] AST, Pionex, and Compudyne—the ho[illegible] brand of CompUSA—have lost a [illegible] chunk of the pie. AT&T and Lead[illegible] Edge PCs have nearly disappeared fr[illegible] store shelves.

If retailers keep up the momentu[illegible] for a few more weeks, they will pr[illegible]ably avert a price crash in January. I[illegible]spite talk of consumer preference [illegible] the biggest and fastest, Pentium [illegible] are still the best-sellers. "Look w[illegible] buys at Christmas—entry-level buyer[illegible] says Alan C. Bush, president of Ta[illegible] Corp.'s Computer City division. "Th[illegible] want P-75s, so—regardless of invent[illegible] problems—we'll sell more of them th[illegible] any other computer this Christma[illegible] Better happen that way. Otherwi[illegible] January could bring a post-holid[illegible] hangover for computer retailers.

By Larry Armstrong in Los Anges[illegible] with Gary McWilliams in Houston a[illegible] Peter Burrows in San Francisco

THE BIG FIVE

ESTIMATED U.S. RETAIL PC SALES FOR THE FOURTH QUARTER
3.04 MILLION UNITS

DATA: SANFORD C. BERNSTEIN & CO.

RACE UNDER FIRE NCE AGAIN

pin-off of National Med is put off as the feds begin a probe

was in the bag. Dr. Constantine L. Hampers had been passed over for he top job at W. R. Grace & Co. But prospective consolation prize was indeed: In June, Grace had agreed pin off National Medical Care Inc., $1.9 billion dialysis company Hams had founded, then sold to Grace. mpers would retain management trol of the unit and as much as a % stake for him and his team.

But that deal isn't going where just now. The govment has initiated a wideging investigation into 's business pracs, and Grace is ducting an interaudit to satisfy a sortium of lenders d up to provide $1.2 billion spe- dividend NMC to pay Grace. In e the financing

STELLO: *He had ed to shed NMC yearend*

s through—a distinct posility—Grace is talking to er suitors about a sale, n-off, or combination.

And Hampers no longer lds much power. A few nths ago, Grace's execuvice-president threatened leave and take NMC's top nagement with him unless spin-off deal was done. w, "Gus Hampers . . . is not going to the person responsible for making decision of what happens to NMC," 's an outside adviser to Grace. "He y have a strong suit, but the rest of directors and [Grace Chief Extive Albert J.] Costello hold the mp card."

GERING DOUBTS. Hampers' credibilwith investors has been severely akened by a string of charges inst the operation he dominates. In tober, the U. S. Health & Human vices Dept. and the U. S. Attorney Massachusetts began investigations o billing practices at NMC's dialysis, oratory services, and home healthe divisions. The month before, Grace had disclosed that NMC's LifeChem laboratory division had collected $4.9 million in overpayments from Medicare because of billing problems. LifeChem repaid the amount.

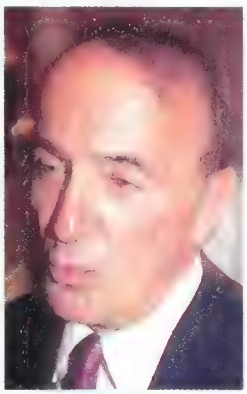
While Grace is still conducting its own audit, NMC says it believes it has been in "material compliance" with applicable laws and regulations. But two other grand jury investigations, initiated last spring, are questioning whether NMC sold defective products and made illegal payments to NMC medical directors. And a scathing recent series in *The New York Times* questioned quality control and NMC's aggressive competitiveness. As the investigations mount, Hampers "has fewer and fewer allies in the shareholder base and the top management of Grace in terms of the way he has run NMC," says one analyst. "It couldn't look worse for him."

Which isn't to say that Costello is beaming. The CEO, who came to Grace in May, had hoped to shed the healthcare unit by yearend to concentrate on Grace's specialty chemicals businesses. His compensation hinges largely on Grace's stock price, which would be buoyed by a successful spin-off. Now, though, Costello says that outcome has been delayed at least until early 1996.

No surprise, then, that Grace is inviting new suitors, either for a purchase or some form of joint venture. Investors and analysts say four companies are interested: Baxter International, the largest supplier of dialysis products; Vivra, the second-largest provider of dialysis services in the U. S.; Swedish dialysis products manufacturer Gambro; and Fresenius, a German-based dialysis equipment maker. All four companies did not comment.

ABUNDANT CASH. The question is price. Hampers originally proposed to buy NMC for $3.5 billion, a deal rejected in favor of a tax-free spin-off. To get the same value as the spin-off, a buyer would have had to lay out $4 billion to $4.5 billion. Now, Bear, Stearns & Co. analyst Jeffrey J. Cianci says the government investigations may have taken $300 million of NMC's value. The drop in Grace's stock price implies an even bigger hit: Analysts say NMC accounts for just $16 of Grace's $62 share price, down 40% from the estimated valuation NMC carried after the spin-off was announced.

That said, NMC remains "a valuable asset and could have huge potential synergies with prospective buyers," says Andrea Schaefer, an analyst at UBS Securities Inc. And the most likely buyer remains Baxter. Next year, Baxter will split itself into two operations; NMC, whose operating profit last year reached $333 million, would provide abundant cash to the newly formed medical technology company.



HAMPERS: *He has lost support among stockholders*

Indeed, Baxter had been in talks with NMC about an acquisition last year, but the deal was scuttled, according to Hampers, over "control issues." Translation: Hampers wanted to run the show. These days, Grace says, he's still involved in the talks—and his personal relationship with Baxter CEO Vernon R. Loucks Jr. might guarantee some future management or consulting role. But he likely won't end up on top.

By Gail DeGeorge in Miami, with Ron Stodghill II in Chicago

GRACE'S TROUBLED SUBSIDIARY

The recent history of National Medical Care

MAY 1 Albert J. Costello, former American Cyanamid CEO, is named Grace's CEO, besting Constantine L. Hampers, chairman of Grace's National Medical Care unit

MAY 4 Hampers presses Costello to accept a $3.5 billion management buyout of NMC, a kidney dialysis and health-care operation

JUNE 14 Grace directors opt to spin NMC off to management, proposing that NMC pay Grace a $1.2 billion dividend in the split

OCT. 18 Federal and state agencies serve five investigative subpoenas against NMC concerning suspect Medicare/Medicaid payments and reimbursements

DEC. 4 Grace announces a delay in the NMC spin-off, and initiates talks with other companies about possible sale of the unit or other transactions; *The New York Times* begins a series of scathing articles on the company

EXECUTIVE SUITE

WHY IS A LAWYER RUNNING RJR NABISCO?

Its new CEO knows the company–and its legal woes are legion

Back in 1988, when F. Ross Johnson, then chairman of RJR Nabisco Inc., was mulling a leveraged buyout of the company, his attorney, Steven F. Goldstone, is said to have thought it a distinctly imprudent idea.

It surely was: The ensuing seven years saw the home of Oreos and Camel cigarettes taken over and eventually relinquished by Kohlberg Kravis Roberts & Co. It was leveraged, downsized, and partially split apart as Johnson and four other CEOs came and left. Since the LBO, the company has had to pay down about $20 billion in largely LBO-related debt.

But Goldstone is back, and now he's running the joint. In a surprise move at a Dec. 5 meeting, RJR Nabisco's board appointed the 49-year-old attorney as the food and tobacco giant's new CEO.

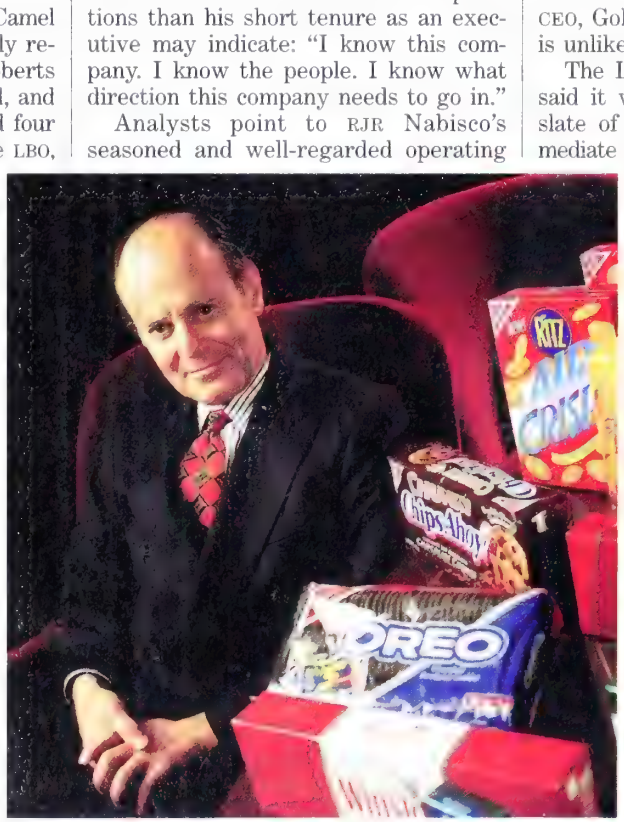
The move was precipitated by family matters that demanded the attention of Charles M. Harper, the company's CEO since 1993. Harper, a well-respected veteran of the food industry, will remain as chairman, but he relinquished the CEO title to spend more time at his Omaha home with his ailing wife. Harper told employees in a letter that "only the most compelling personal circumstances could cause me to take this step right now." The succession plan was made in just two weeks. The company won't say if it considered others for the CEO job.

Who is Goldstone? Even many who follow RJR Nabisco closely say he is an unknown quantity. "I wouldn't know him if he stood in my office," says Oppenheimer & Co. analyst Roy Burry. Goldstone joined RJR Nabisco as general counsel in February; he became president of the $15.4 billion company in October.

"FLEXIBLE." Previous experience? None as a corporate executive. Goldstone spent his entire career at the law firm of Davis Polk & Wardwell, specializing in restructurings and litigation. "Steve has fundamental characteristics that will suit him very well as an executive," says UAL Corp. executive Stuart I. Oran, who represented United's unions a few years ago when Goldstone represented UAL's management. "The two most critical are his intelligence and pragmatism. He's not dogmatic. He's flexible."

Goldstone says he has done legal work for RJR Nabisco since 1978 and is therefore more familiar with its operations than his short tenure as an executive may indicate: "I know this company. I know the people. I know what direction this company needs to go in."

Analysts point to RJR Nabisco's seasoned and well-regarded operating chiefs, H. John Greeniaus at Nabisco and James W. Johnston at R.J. Reynolds Tobacco Co., as the reason they're not alarmed by Goldstone's lack of management or industry experience. Indeed, the company's laggard stock rose 3%, to 30¾, on the day Goldstone's promotion was announced. "Given the environment surrounding the company, I'm very comfortable with Goldstone," says Burry. The company has legal problems ranging from tobacco liability suits to the Food & Drug Administration's efforts to regulate the industry. These issues, Burry says, "require a legal thought process at the top."



SURPRISE MOVE: *Can Goldstone sell cookies?*

Goldstone's first public statement as CEO, though, quickly drew the ire of major RJR Nabisco shareholders Bennett LeBow and Carl C. Icahn. In recent months, the two have waged a nasty battle to force the company to immediately split the R.J. Reynolds tobacco business from the Nabisco business. In a partial initial public offering in January, 19.5% of Nabisco stock began trading independently. The company has said it supports a complete spin-off but is legally unable to do so until certain commitments to bondholders and other issues are resolved in 1997. But in an interview with BUSINESS WEEK shortly after he was named CEO, Goldstone said a complete spin-off is unlikely until 1998.

The LeBow group, which last month said it would be fielding an opposing slate of directors committed to an immediate spin-off at the next annual meeting, was quick to attack. "RJR's management appears to be in disarray and turmoil," says a spokesman. "We are particularly disturbed that [Goldstone's] first words promote further delay for the spin-off, although they say their only priority is to increase the stock price."

Such attacks likely won't ruffle the new boss. Indeed, as an attorney, Goldstone may be better suited than the avuncular Harper to fight the legal battles that are likely to preoccupy RJR for quite some time. Whether he can make cigarettes and cookies is another question. But at this company, surmounting legal troubles is, for now, Job One.

By Elizabeth Lesly in New York with Gail DeGeorge in Miami

STEVEN F. GOLDSTONE

AGE 49.

EDUCATION BA, University of Pennsylvania; JD, New York University.

LAW Davis Polk & Wardwell associate, 1970–1978; partner, 1978–1995. Specialized in mergers and acquisitions, litigation. Clients included RJR Nabisco and predecessor companies, United Airlines, General Electric, and J.P. Morgan.

BUSINESS RJR Nabisco general counsel, February, 1995. President, October, 1995. CEO, December, 1995.

T'S NOBOYUKI IDEI'S ONY NOW

ut can he push the company into new digital frontiers?

ight months after becoming president of Sony Corp., Noboyuki Idei has clearly estabhed who's boss. On Dec. 5, he gineered the departure of Miael P. Schulhof, the 21-year mpany veteran who was presint and chief executive of the mpany's U.S. operations, inding its record label and Hollyood studio. From now on, those erations will report directly to kyo.

Now, the 58-year-old Idei has a ance to put his imprint on the 5 billion technology giant. True, rio Ohga, 65, remains chairn and CEO. But it is Idei who rewriting Sony's agenda. He ks of becoming a "Digital eam Kid," pushing Sony bend its audiovisual roots deep o the worlds of computers and nmunications.

Movies and music will remain part Sony's formula—indeed, Idei has not licated that he will exit the music siness or sell Sony's film studio, as ne analysts have suggested. But even re important will be the merger of gital technologies into appealing new oducts, from high-resolution televins to multimedia eyeglasses (table).

On Nov. 14, Idei unveiled the most ntroversial component of his plan: to ter the cutthroat personal-computer siness in late 1996, in alliance with el Corp. Idei and his lieutenants hint t Sony will soup up its PC with video mes created by the Sony Playstation m and special screensavers from ny Music.

CK OF CONFIDENCE? It was the move o PCs that helped precipitate Schul-'s departure from the company. The nerican apparently believed that ny shouldn't be getting involved in at he perceived as a low-margin siness. In PCs, Schulhof said in a Dec. 6 interview, "the only people who make money on a consistent basis are Intel and Microsoft."

QUICK CHANGE The exit of Schulhof (left) came after the U.S. chief clashed with Idei (above) on Sony's direction

Of course, it wasn't just a difference of opinion on PCs that led to what Schulhof calls a "mutual and amicable" decision to resign. One top Sony executive says Idei had lost confidence in Schulhof's ability to achieve the oft-promised synergies between Sony's electronics businesses and its movie and music operations. No wonder: Sony has poured more than $5 billion into Hollywood since 1989; a year ago, the company wrote down a massive $2.7 billion from Sony Pictures Entertainment Inc.

Schulhof and Idei also disagreed on how to finance Sony's expansion and reduce its debt, which has risen to a steep 76% of capital. Schulhof advocated raising money via a partial spin-off of U.S. operations. Idei disagreed. A Sony source says media baron Rupert Murdoch recently approached Sony about making an investment in the company's U.S. entertainment properties but was rebuffed.

Schulhof didn't help matters by living a lavish lifestyle that clashed with those of his more modest Japanese bosses. Unlike both Sony co-founder Akio Morita and Ohga, Idei never developed a personal relationship with Schulhof, preferring to communicate by memo. Schulhof declines to comment on his differences with Idei but says: "I recognize that Mr. Idei needs his own breathing room. He's president."

Idei wants to hang onto Sony Pictures and Sony Records in part because they can feed new gadgets such as the MiniDisc. But Idei's clear emphasis is on hardware. In recent months, Sony has announced a string of products and ventures in the world of "digital convergence." It has also rolled out high-definition televisions that, coupled with laptop PCs, can bring vivid multimedia images from the World Wide Web straight into the living room. Sony is co-developing a TV settop box in cooperation with Microsoft Corp. With San Diego-based Qualcomm Inc., the company is working on digital cellular telephones. Sony recently set up an online information service in Japan.

The object: mining the "hidden Sony," as Sony Electronics Inc. President Carl Yankowski calls it. "The convergence of audio, video, computers, and communications is the sweet spot in our new business model," Yankowski says. Of course, Sony isn't the only company trying to hit that sweet spot. Netherlands-based Philips Electronics and France's Thomson, among others, are equally intent on creating new types of digital products and tapping into the Internet. But Idei, having consolidated his authority, seems convinced that he and Sony's vaunted engineers can become the industry's "Digital Dream Kids."

By Peter Coy in New York and Ronald Grover in Los Angeles, with bureau reports

EYOND THE ISCMAN

igh-tech onsumer roducts Sony ay build:

NET-READY TELEVISIONS Widescreen, high-resolution TVs that double as computer monitors and bring the World Wide Web into the living room

MULTIMEDIA EYEGLASSES Wireless projection of television images and data onto eyeglass lenses will let users watch movies or read E-mail on the go

ONLINE STEREOS With special software, audiophiles will program a 100-disc CD changer from a PC and download jacket information from the Internet

WEB APPLIANCES A variety of stripped-down PCs and handheld personal digital assistants will let users browse the World Wide Web for less than $500

To launch Win

used 4 networks,

85 magazines,

100 radio stations

and, *ahem,*

one server.

ws® 95, they

TO POWER THE ON-LINE LAUNCH OF WINDOWS® 95, MICROSOFT CHOSE THE DIGITAL PRIORIS™ HX 590DP SERVER.

Failure was not an option on August 24. Microsoft's official launch date for Windows® 95 marked the biggest new product introduction in industry history, not to mention one of the great all-out media blitzes. On this day, a minor glitch would have made headlines. So when all eyes turned to Microsoft – Microsoft turned to Digital.

For the on-line launch of Windows® 95, Microsoft plugged in the Digital Prioris Internet server – ten of them, in fact. A decade of Microsoft/Digital teamwork was behind the decision. So was the simple realization that, for a job that meant handling almost two million hits the first day, the Prioris HX 590DP was simply the best server around. After all, its fault tolerant features do include drive arrays, ECC memory, redundant cooling systems and power supplies. Put simply, Microsoft chose Digital for the same reasons you should. Reliability. Power. And no slip-ups.

intel inside pentium PROCESSOR

Call 1-800 DIGITAL for your nearest reseller or visit our Web Site at www.pc.digital.com.

Designed for Microsoft® Windows® 95

digital™ PC

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TELEVISION

ALL NEWS, ALL THE TIME, ANY TIME SOON?

Media giants try to crowd the trail CNN blazed

CNN's New York studios have the look of a Broadway show in final rehearsals. In just days, the pathbreaking cable network will launch its first progeny—all-business cable channel CNNfn. As CNNfn top executive Lou Dobbs gave a pep talk to employees in the studio on Dec. 5, a worker steadily tiled the set behind him. "We'll be ready for the launch," Dobbs vowed.

The question is, whose launch? Suddenly, as media giants vie for cyber shelf space on television and computer screens, they're turning back to the most basic programming tool ever: hardcore news. Turner Broadcasting Systems Inc.'s CNNfn is just the start. Capital Cities/ABC Inc. on Dec. 5 unveiled plans to launch a 24-hour news service by 1997. General Electric Co.'s NBC Inc. hopes to announce its own all-news concept by early next year—possibly by converting its America's Talking channel. Rupert Murdoch, who doesn't even have a U.S. news operation, claims he might dabble in the all-news format, too.

"NOTHING." It's quite a group. And their plans would bear great promise if they weren't all targeting the same overcrowded distribution system: the nation's cable companies. Forget the hype about 200 cable channels. For now, most systems offer fewer than 50. And they're full up with entertainment like Nickelodeon and the Discovery Channel. Indeed, when Dobbs sold Time Warner Inc.'s New York cable system on carrying CNNfn, he had to knock out one of Turner's own channels, Turner Classic Movies, to do it. (It helped that Turner is being acquired by Time Warner.) Says NBC Cable President Thomas S. Rogers: "The channel situation is so acute that simply saying you're going to do something means nothing. And I mean nothing."

The media giants are moving ahead anyway because they all have the same problem. CNN, ABC, and NBC own costly news-gathering assets that produce far more than they can air in their traditional time slots. They could easily do more. "We almost have the people in place to do [a channel] right now," boasts ABC News President Roone Arledge. Even so, ABC won't launch until 1997. The reason? There's no clear way to get the shows to the people. "Distribution will be a major problem and challenge for us going forward," Arledge says.

Indeed, Arledge can't beam his signal directly into homes with digital broadcast satellite, because the technology can't deliver the local programming he would like to provide to differentiate ABC from CNN. Delivery over fiber cables owned by telephone companies isn't near becoming a reality. Even when new cable channels become available, they'll tend to go to lucrative offerings like pay-per-view or "multiplexing"—the staggered starting times for movies and such on premium channels like Home Box Office or Showtime.

All that means NBC could have an early advantage if it moves quickly to launch its all-news service. Converting America's Talking, the network's low-rated gab channel, into an all-news format would be tricky. NBC first must negotiate new deals with cable-system operators—including Time Warner and Tele-Communications Inc., which own big chunks of Turner. But existing contracts may contain language nebulous enough to make it possible. And that would give the all-news channel instant access to the 20 million cable subscribers who currently e America's Talking.

Cap Cities President Robert Ie says he would consider an equity n vestment in his new channel in retr for access to distribution. For his pr Turner hopes to avoid distribution sh ages by bundling CNNfn with his ot channels to make the sale to choosy a ble operators.

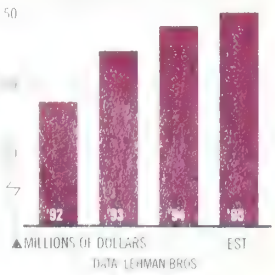
Turner's CNNfn is also offering an mada of multimedia services. He's p ting up a site on the Internet's W Wide Web where viewers can retri archived stories, check news headli or stock quotes, or download orig materials. Over AT&T's Business N work, an interactive research and c munications service, they can inte with newsmakers and other viewers

Multimedia hypesters think ot news shops will quickly copy CNN strategy. But Roger Ailes, presiden CNBC, figures multimedia bells and w tles won't do anything if Turner c get cable operators to buy the chan especially when so many already c business-focused CNBC. "Distribution

ABC'S ARLEDGE AND IGER: *24-hour news by 1997*

CABLE GOLD

CABLE NEWS NETWORK'S OPERATING CASH FLOW



roblem, and if they're prepared to leed red ink until it comes, that's fine. I 'elcome the competition," Ailes says.

Still, early results from Turner don't ›ok too shabby. When directors approved the launch of CNNfn (for a reorted $10 million) in June, the business plan called for 2.5 million ıbscribers at launch. Today, systems ith more than 5.5 million subs are on board. Of course, a timely linkup with a major cable operator doesn't hurt. A fifth of the subscribers come courtesy of Time Warner's New York system.

That's more than a fair start. But to keep CNN growing fast enough to beat out CNBC, not to mention the all-news offerings from ABC and NBC, Turner will have to keep innovating. Harry Motro, vice-president of CNN Interactive, scoffs at the notion that ABC's news service will be a viable competitor to CNN's multiple offerings. "Good luck catching up to where we'll be by 1997," he says. There's probably only one certainty about 1997. Wherever CNN or anyone else goes, they probably won't be there alone.

By David Greising in Atlanta and Michael Oneal in New York

NOW MAD AVE REALLY HAS TO SING FOR ITS SUPPER

What a sweet deal for Young & Rubicam Inc. In late November, the agency won new business worth $200 million a year in billings from Colgate-Palmolive Co. when the consumer-goods giant consolidated its annual $550 million of ad spending at Y&R. Just one catch: Y&R, which already had more than half of the Colgate account, now will be paid based in part on how well its ads work.

The agency is no newcomer to the pay-for-performance concept. Two years ago, it struck a similar deal with Sears, Roebuck & Co., and its "Softer Side of Sears" television commercials have paid off big time. Both contracts are high-visibility examples of a quiet but growing trend on Madison Avenue, where the standard 15% commission has gone the way of the three-martini lunch.

BIG CUTS. Why the change? As Corporate America undergoes wrenching cost cutting, ad fees are being scrutinized along with everything else. Agencies are being pressured to accept lower pay while improving quality. "Advertising has been seen as an expense to be cut," says Peter A. Georgescu, chairman and CEO of Y&R. "I see this as an opportunity to break out of that cycle."

Indeed, about 45% of advertisers say that they have changed the way they pay agencies during the past three years, according to the Association of National Advertisers. Nearly 20% say their contracts now include some incentive pay, up from 13% in 1992 (chart).

The problem is measuring how well an ad does. "It's very difficult to agree on criteria," says Alan Bishop, chairman and CEO of Saatchi & Saatchi North America. Colgate plans to use three benchmarks to measure Y&R's performance: a subjective evaluation of creativity, sales results based mainly on market-share growth, and the mileage it gets from the worldwide ad budget.

The agency already has made Colgate's global advertising more efficient. Its "White on White" TV commercials, created to sell laundry detergent in France, have now been introduced in 30 countries, replacing 20 different local campaigns. "Once you have a winning formula, there's no need to reinvent it," says Emilio Alvarez-Recio, vice-president for global advertising at Colgate.

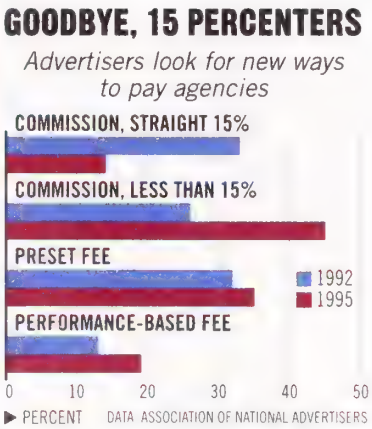
Of course, even the best campaign can be jolted by circumstances. What if there's a labor strike in France or a currency devaluation in Mexico? Top managers, whose pay is increasingly weighted to performance, often get hit by such events. In this case, agency and client will sit down and together figure out the best way to cope, Recio says. "Our objective is to treat the agency as any other human resource," he says. "It requires a lot of confidence in each other to be fair."

A BOON. The Sears deal is slightly different from Colgate's. Performance measures include growth in customer awareness based on surveys, growth in its apparel business, and total profits. Sears also makes subjective judgments about Y&R's strategic contributions and account management.

For Y&R, the Sears pay-for-performance scheme has been a boon. John Costello, senior executive vice-president for marketing at Sears, credits the "Softer Side" TV spots with helping apparel sales outpace the industry over the past two years. Y&R's Georgescu says the agency has earned more with its incentive-fee plan on the $60 million-a-year Sears campaign than it would have earned with a 15% commission.

Not all ad agency executives are as gung-ho as Georgescu about performance pay. Many think that it's a euphemism for less pay. "There are clearly some clients that look to reduce their remuneration to the agency by creating incentive compensation," says Philip Palazzo, chief financial officer at Ammirati & Puris/Lintas, New York. But at a time when cost cutting is the rage, agencies may find it's better to accept the possibility of a profit than the certainty of none.

By Mary Kuntz in New York



Y&R's Georgescu sees pay for performance as an "opportunity"

MORE MUSCLE: *Steelworkers outsid Bridgestone's Nashville headquart*

LABOR

RUBBER WORKERS WITH NERVES OF STEEL

A revitalized, merged union is getting results at Bridgestone

Only a year ago, Bridgestone/Firestone Inc. triggered a diplomatic flap when it permanently replaced more than 2,000 strikers. The U.S. government put pressure on Bridgestone Corp., the tiremaker's Tokyo-based parent. Walter F. Mondale, the U.S. Ambassador to Japan, complained to the Japanese Foreign Minister at a White House lunch. Labor Secretary Robert B. Reich jumped in, and even President Clinton lashed out publicly.

The high-level government squeeze play didn't work. The subsidiary continued using replacement workers, and in May the beleaguered United Rubber Workers union officially ended its strike at five U.S. plants. But in July, the 90,000-member union got a shot in the arm by merging with the more powerful United Steelworkers (USW). The White House's tough words seemed mild compared with the harassment campaign unleashed by the 560,000-member USW. The tiremaker became the target of worldwide demonstrations and campaigns by foreign unions (table).

By mid-October, the company agreed to return to the bargaining table. Officials deny that the USW campaign was a reason, but on Dec. 5, Bridgestone President Yoichiro Kaizaki met with Steelworkers President George Becker in Tokyo. Sources close to both sides say they expect to reach a new deal by mid-December. Says Becker: "Bridgestone is a good employer in Japan, and by the time we're finished, it's going to be a good employer in the U.S., too."

Even a partial victory over Bridgestone would give labor a badly needed boost, given that workers there once seemed headed for a major defeat. In July, 1994, 4,200 workers walked out after the company refused to agree to terms the union had won from Goodyear Tire & Rubber Co. a month earlier.

Bridgestone/Firestone wanted 12-hour shifts, pay hikes tied to productivity, cuts in health benefits, and lower pay for new hires. The company built inventory with help from its Tokyo par and managed to keep customers s plied. Hundreds of demoralized strik drifted back to work, and managem began hiring permanent replaceme last January.

TOKYO TACTICS. Even before the u merger, the company had been the get of the USW, one of the most agg sive unions in its use of corporate c paigns. The USW has been pay full-time wages to 150 members, have taken leaves from factory j Helped by thousands of volunteers, union mounted weekly demonstrati against Bridgestone stores. On b Saturdays, it conducted simultane protests of 100 or more participants two dozen malls in Ohio and ot states. One target: Sears, Roebuck Co., a major Bridgestone distribu The union also aired radio ads in m than a dozen local markets at $15,00 $20,000 each and picketed Japanese sulates around the country.

The USW carried its campaign ac the Pacific, too. It asked for help f Rengo, the main Japanese labor f eration, which includes Bridgest members. When Rengo balked, the teamed with Zenrokyo, a small l wing union. The USW shipped ove 15-foot-high puppet of legendary la organizer Mother Jones, and the unions held joint demonstrations side Bridgestone offices. Rengo, barrassed by being upstaged, as Kaizaki to meet Becker. "The comp realized [the union] wouldn't go aw says Vic Thorpe, head of a Brus based labor federation that also bied Bridgestone.

The two sides now are making h way on many contentious issues. toughest one: Becker insists that strikers return to work, but Bridgest refuses to fire any of its permanent placements. If the two eventually set the U.S. and Japan can scratch Brid stone off their list of conflicts.

By Aaron Bernstein in New Yo Zachary Schiller in Cleveland, o Edith Hill Updike in Tokyo

STEELWORKERS VS. BRIDGESTONE

The United Steelworkers' campaign:

HIT THE STREETS The union held up to 200 demonstrations a week against the company in 500 cities worldwide

APPEAL OVERSEAS Sent delegations to join protests by foreign unions that agreed to target Bridgestone overseas

ENLIST HELP FROM SYMPATHIZERS Lobbied the cities of Boston and Buffalo and some companies to cancel Bridgestone contracts

GET POLITICAL Convinced the Clinton Administration t protest Bridgestone's labor stance in high-level diplomatic meetings

COMMENTARY

By Stan Crock

LOOPHOLES YOU COULD DRIVE A GOLF CART THROUGH

After 50 years of fulminating, Congress is trying to clean up the capital's oldest profession: lobbying. Anxious to defuse the rising citizen clamor for change, the House and Senate have curbed freebies for members. And on Nov. 29, Congress approved a bill requiring lobbyists to register and reveal details of their operations, from clients' names to lobbying fees (table). "You're going to see greater public confidence in the Congress," predicts Senator Carl Levin (D-Mich.), a champion of the reforms.

But the public shouldn't take solace yet. While lawmakers passionately debated the propriety of accepting T-shirts, meals, and golf junkets, they failed to address more invidious forms of influence peddling. Beyond restricting gifts, Congress will force many more lobbyists to register than in the past. But the bill only covers activities where lobbyists have direct contacts with government officials. They could still pursue other well-heeled operations without disclosure. How? By taking money now spent on direct lobbying and diverting it into grassroots crusades and mass-media campaigns.

PRIZED PLOY. The loopholes are no accident. Last year, Republicans killed a much tougher measure that would have required disclosure of the vast sums spent on grassroots efforts. Many of these campaigns are not run by local activists in the hinterlands, but are ginned up by Washington consultants who use phone banks or direct mail to persuade the public to deluge lawmakers with letters and calls.

The GOP and conservative groups, which have an edge over Democrats in this area, had no intention of destroying their prized ploy. So the new bill has a narrower focus—imposing disclosure requirements only on contacts with lawmakers, aides, and the executive branch. That will encourage further grassroots efforts, which are expected to expand to the Internet. "Instead of just encouraging them to write letters, you can reach out and give people the words to say," says lobbyist Howard D. Marlowe, who has his own World Wide Web page.

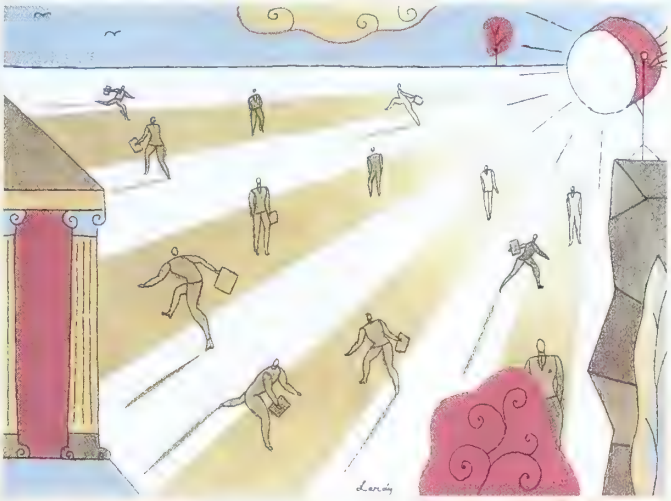
The same loophole would give a boost to the multimillion-dollar advertising campaigns that business coalitions have launched on such issues as health-care reform and telecommunications legislation. The money spent on direct contacts with lawmakers pales beside the sums spent on television, radio, and newspaper ads.

Another potential reverberation of reform: Lobbyists may just take the cash they're saving on expensive junkets and increase their campaign contributions to candidates. Indeed, Thomas M. Susman, chairman of the American League of Lobbyists' panel on standards and ethics, predicts "a shifting in that direction." Lobbyists already are plotting some devious ways of getting around the new rules. One rep's suggestion: holding a one-person fund-raiser for a lawmaker at an expensive restaurant. "He picks up lunch, and I give him a check for $200," the lobbyist says.

"LUDICROUS." That's too bad, because the goal of the gift and disclosure measures was to reduce sleaze in Washington. Reformers hoped that the close ties fostered by wining and dining would end, and that embarrassing publicity over lavish expenses might discourage such activity. But without new campaign-finance rules, the public's appetite for reform is unlikely to be sated. "It's ludicrous to think a $20 dinner will buy off a member but a $5,000 check won't," notes Ronald G. Shaiko, an American University government professor.

So don't be surprised if the public forces Congress to take another whack at change. Next time, reformers should push for disclosure of the money spent on faux grassroots campaigns and advertising blitzes. And Congress should curb its hunger for corporate campaign contributions long enough to pass some real reforms. After all, nothing gets voters more incensed than the appearance of a quid pro quo. If lawmakers don't heed this call, all the campaign donations in the world won't protect them from the voters' wrath.

Stan Crock covers lobbyists and lawmakers in Washington.



GUCCI GULCH GORED?

Congress' new rules for lobbyists:

GIFTS The House adopted a flat ban on gifts, while the Senate imposed a $50 limit on a single gift and a $100 annual limit from a single source.

REGISTRATION Anyone who spends more than 20% of a client's time on lobbying must register. So must lawyers representing foreign entities.

DISCLOSURE Lobbyists must reveal clients, issues they lobby on, and amounts they are paid and spend.

TRADE REPRESENTATIVE Anyone who has represented a foreign entity is barred from serving as U.S. Trade Representative or Deputy Trade Representative.

POTABLES

AT LAST, GROUNDS FOR CELEBRATION

The prospect of better crops has sent soaring coffee costs down

FULL OF BEANS: *The coffee cartel is too porous to keep prices artificially high*

The price of coffee can't come down fast enough for Sid Kahn. A year ago, the soaring cost of beans forced his B&F Coffee Service to charge one-third more for the grounds it delivers to 4,000 Chicago offices. As customers griped, Kahn could only shrug. "We're caught in the middle," he complains.

Now relief is trickling down. By Dec. 5, coffee futures had slid to $1.05 per pound, down from a 1994 peak of $2.74. That's still well above the 75¢ levels that prevailed before coffee took off, but further price plunges may be in the offing as global supplies increase, analysts say. And lower prices likely will halt a recent 6% slide in U.S. consumption prompted by coffee sticker shock.

Flashback to the disastrous summer of 1994. Two frosts and a drought had knocked out the Brazilian coffee crop, which in good years accounts for a third of world output. To make matters worse, virtually every other producer, stung by low prices in previous years, had skimped on fertilizer, pesticide, and maintenance. Their sorry plantations could hardly fill the Brazilian void. As the supply outlook withered, buyers panicked. The cost of java soared.

By the beginning of 1995, though, the market already had begun to adjust. Traders started anticipating better crops ahead, especially since coffee bushes that survive frosts usually respond by producing more the next season. Sure, the Brazilian harvest might be half its usual volume, filling as few as 12 million of the standard 132-pound bags this year. But if Brazil comes back strong, traders reasoned, it could fill 26 million bags in 1996 and 30 million the year after that.

Meantime, producers failed in their efforts to bolster prices by holding beans off the market. The Association of Coffee Producing Countries, a trade group of 29 nations representing about 80% of world production, agreed in July to restrict exports by 10%. But it made several misjudgments. Coffee drinkers, stung by higher prices in the U.S. and Europe, cut their consumption by more than the trade group anticipated. And nonmember producers such as Vietnam, boosted exports more than expected, prompting dissent within the organization.

Such dissent makes it unlikely the trade group could pull off a more operate move, such as halting member exports altogether, says analyst Judy Ganes of Merrill Lynch & Co. "If some hold back, others will ship more heavily," she predicts. Even though the group has succeeded in tightening supplies, moreover, traders have kept driving prices down—by 14% in November alone.

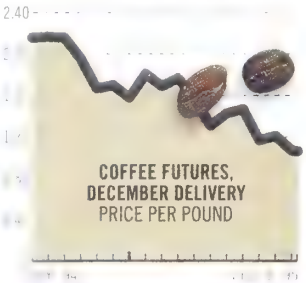
SHORT-SELLERS. As prices drop, market forces have reinforced the downward momentum: Roasters such as Kraft Foods Inc. and Procter & Gamble Co., anticipating lower prices, have been less active buyers, traders say. And producers, also worried about lower prices ahead, have stepped up short-selling to lock in at current levels, pushing the market lower. "The producers are panicking and continuously shorting this market," says Walter Spilka of Smith Barney Inc.

Wholesalers and retailers are just now responding to lower prices. Average supermarket prices have jumped 18% this year, even as futures prices have fallen, partly because costly gourmet coffees have gained market share. As stores work up expensive inventory, though, consumers may soon get a break. Kraft, maker of Maxwell House, has dropped the price it charges retailers by 25% this year. At gourmet shops, price cuts are less certain. Starbucks Corp. "hasn't decided whether to lower prices," says Michael Casey, its chief financial officer. In part, the decision will depend on whether prices stay down, he notes.

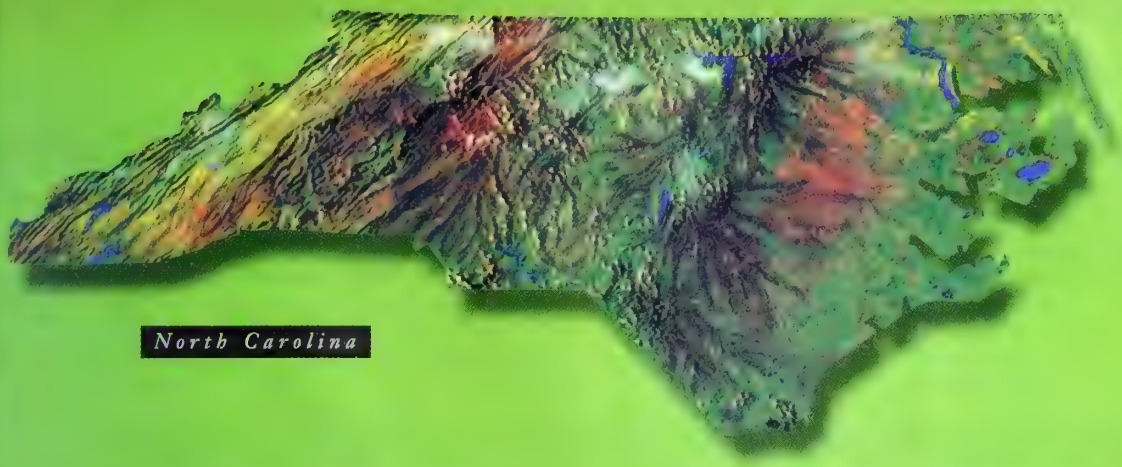
For his part, Sid Kahn is mulling a price cut but not until March. The figures getting burned once by coffee is quite enough.

By Greg Burns in Chicago

COFFEE JITTERS



DATA: BLOOMBERG FINANCIAL MARKETS



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FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

EDITED BY KEITH H. HAMMONDS

TAURUS: NO. 1, BUT LOOKING NERVOUS

FORD'S TAURUS IS STILL THE nation's best-selling car, but the claim has an increasingly empty ring to it. Sales of the all-new 1996 Taurus, arguably Ford's most important introduction in years, fell 27%, to just over 28,000 cars, in November, after a 16% October decline—and December may not be much better. A big reason: Taurus' prices, which start near $20,000. Ford also blames a steep decline in sales to rental-car fleets and lower showroom traffic from expiring Taurus leases. Analysts expect Ford to dangle sweeter lease deals to juice up sales, but to avoid cash rebates. Why is Taurus still No. 1? Car sales are weak across the board, as buyers flock to trucks.

LESS BOUNCE AT RUBBERMAID

RUBBERMAID, ONCE A HIGH-flier, has joined the restructuring parade. The plastic products maker has been hit this year by higher raw-materials costs and weak retail demand, as well as management turnover and frayed relations with customers. On Dec. 5, Rubbermaid said it would take a $94 million aftertax charge and slice 9% of its jobs to try to save $50 million a year. Long a marketing paragon, the Wooster (Ohio) company now is focusing more on efficient production and distribution. It acknowledged that earnings will significantly trail last year's and said it may buy back more shares.

CLOSING BELL

QUICK DRAW

Call it the *Toy Story* Effect—a surge in sales of old-line toys featured in Walt Disney's hit animated film. Case in point: Ohio Art. Its stock doesn't even trade every day, but from Dec. 1 to Dec. 4 it surged 40%. Volume was up sharply. All that, apparently, because *Toy Story* features the company's 35-year-old Etch A Sketch. Chairman Bill Killgallon, whose family holds at least 60% of Ohio Art's shares, credits the movie for a sales surge that has his factory on overtime.

CABLE TV: NO RATE HIKE—YET

YOUR FAVORITE ESOTERIC cable channel will cost a few bucks more—but not until 1999. On Dec. 6, House and Senate negotiators, now putting the final touches on a sweeping revision of telecom laws, agreed to push back cable rate deregulation three years. That could raise average rates 20%, say consumer groups. The Senate had called for immediate deregulation on most cable systems, while the House wanted rates freed altogether in 15 months. The White House ultimately went for an extended version of the House plan, thus delaying any rate hikes until well after the November elections.

HANGUPS AT CINCINNATI MICRO

EMBATTLED CORDLESS TELEphone maker Cincinnati Microwave last week lost its sixth senior executive in 18 months when Chief Operating Officer John Noland "resigned to pursue other interests." Now, sources close to CMI say CEO Jacques Robinson may have lost the trust of the company's outside directors and could go next. Noland's departure followed a BUSINESS WEEK article (Nov. 6, 1995) alleging the company had tried to cover up extensive problems in design, procurement, and manufacturing of phones last year. Robinson denies any cover-up. Noland was unavailable for comment. CMI hasn't turned a profit since 1988, and its stock has plummeted from 21¼ in August to a recent 4½.

HEADLINER: STUART EIZENSTAT

FROM BELGIUM TO BELTWAY

Coming soon to Commerce: Stuart Eizenstat, a policy pro with top connections, who will be nominated as Under Secretary for International Trade. Eizenstat would succeed Jeffrey Garten, who resigned to head Yale's School of Management.

The high-profile appointment mirrors the transformation of Commerce, long a backwater, into a powerhouse under Secretary Ronald Brown. Eizenstat, now U. S. ambassador to the European Union, was Jimmy Carter's chief domestic policy adviser. In the 1980s, he strengthened his political ties to Republicans and Democrats alike as a lawyer-lobbyist. Eizenstat, 52, likely will tilt the Administration's Asia-oriented trade policy back toward Europe and will prove an effective defender of Commerce's trade programs against GOP budget hawks.

But why leave a cushy post in Brussels to take an arguably lesser job in Washington? Eizenstat may be eyeing bigger things: Probers still are poking into Brown's finances, and U. S. Trade Representative Mickey Kantor may jump to Clinton's campaign team.

By Amy Borrus

A DREAM OF A DEVELOPMENT

FOR THE BEST-KNOWN NAMES in Hollywood, nothing less would do. In what is likely to be the biggest land development in Los Angeles history, Dreamworks SKG—the studio-in-waiting being created by moguls Steven Spielberg, Jeffrey Katzenberg, and David Geffen—is a partner in a $8 billion real estate deal near Marina del Ray. The 1,100-acre spread will include a 100-acre studio for Dreamworks along with apartments, commercial space, and a marina. Eager to show it had turned an economic corner, Los Angeles granted the project $10 million in concessions.

ET CETERA . . .

- General Motors made CEO John Smith chairman; John Smale will remain a director.
- Delta Air Lines and its pilots agreed to jointly create a low-cost operation.
- Mary Schapiro will be the first president of the NASD regulation division.
- The 30-year T-bill dipped below 6% for the first time since 1993. 5%, anyone?

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Q: It doesn't hold the least bit of interest for you?

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A: What? Data what?

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JAPAN

'I THINK THEY WERE JUST LYING LOW'

Toyota springs its second-wave assault on the U.S. market

It was a red, white, and blue rally at the high school in tiny Princeton, Ind., as Toyota Motor Corp. announced it would build a truck plant in nearby cornfields. Huge signs along U.S. Route 41, including a 20-foot inflatable Uncle Sam, bade welcome to the auto maker and the 1,300 jobs it will bring. The Princeton Marching Band trumpeted fight music, and a pumped-up crowd that included World War II veterans wearing American Legion hats shouted: "T-O-Y-O-T-A!" Governor Evan Bayh stood next to Toyota President Hiroshi Okuda and placed Toyota's logo on a giant map showing the company's North American locations. The crowd roared.

The All-American hoopla was an ironic welcome for a Japanese carmaker starting an ambitious new drive into the heart of Detroit's profit margins. With the $700 million plant, Toyota will begin a serious run at the full-size pickup truck market—the last unchallenged bastion of Detroit dominance. The Princeton factory, which will start up in 1998, will be able to produce 100,000 T100 pickup trucks a year, enabling the company to dodge a 25% import duty and the ravages of currency swings. "It will be much cheaper to build the trucks here," says Okuda.

Watch out, Detroit. The Indiana plant is only one of several moves Toyota is making to establish itself as a full-fledged "domestic" vehicle producer relying mostly on U.S. production, not imports. Over the next three years, Toyota plans to boost North American production from 800,000 now to 1.1 million. It will begin making a front-wheel-drive minivan in Kentucky in 1997. This year, the company spent $230 million to expand plants in Cambridge, Ont., and Georgetown, Ky. All told, Toyota will have invested $6.5 billion in North America, giving it the largest presence of any non-American auto maker. In terms of sales, it will be half as big as Chrysler Corp.

Toyota, which once trailed Honda Motor Co. and Nissan Motor Corp. in the U.S., also seems to be attempting to ease some of its stateside management woes. For years, different sales and manufacturing units reported directly back to Japan, with only scant coordination among them. Now, all manufacturing operations will report to Toyota Motor Corporate Services of North America, which will "sell" vehicles to California-based Toyota Motor Sales USA Inc.

SHRINKING STICKERS. Although both units will still report directly to Tokyo, the reorganization should help the company drive down costs and improve coordination. Taken together, Toyota's moves are impressive. "Over the last two to three years, a lot of people said Toyota lost its way, but I think they were just lying low, and now they're coming on strong," says Peter Boardman, auto analyst at UBS Securities Ltd. in Tokyo.

In some

senses, Toyota is doing all this becas it has to. A strong yen helped ps Toyota's third-quarter U.S. saleso Japan-made vehicles down 30% fm last year. The company was able to c pensate for that somewhat by increas sales of its locally assembled vehie by 20%. Overall, Toyota's U.S. sa including Lexus, are off 1.7% so far year, to 983,976.

But because the U.S. market a whole is off even more, the compan again gaining market share. After rea ing a high of 8.2% in 1991, the comp lost a whole point, to 7.2%. Now, back up to 7.5%, and prospects further gains are good. Th because Toyota is hot in market segments, thank part to its U.S. base. year-old Avalon, which designed in the U.S. an manufactured in Kentucky, is ing well, with some 60,000 sold so this year. The Camry, while down a is still the third-best-selling car in An ica, after the Ford Taurus and Ho Accord. It, too, is made in Kentuc "Toyota is poised for major growth w in the next year," says Christopher Cedergren, senior vice-president at n ket researcher AutoPacific Group in Santa Ana, Calif.

One reason for this happy st of affairs is a series of redesig The new Camry, due out n fall, should be priced at les $1,000 lower than tod $16,758 base model. It will be

TO BE MADE IN AMERICA

The T100 pickup, now imported, will be produced in Indiana at the rate of 100,000 a year, joining the Avalon, which is assembled in Kentucky.

HAPPY HOOSIERS: *Toyota's Okuda is warmly greeted in Princeton, Ind.*

wed by a new Corolla in 1997. Toyota ready is cutting prices on some mod-s. The sporty coupe Paseo, all new r 1996, carries a sticker price of 3,038, exactly $1,000 below its prede-ssor's. And the face-lifted '96 Celica t a $700 cut, to $16,758. All told, To-ta raised prices only 1.7% for 1996—a naller jump than the hikes that have en announced by Ford Motor Co. and eneral Motors Corp.

Localizing production of the T100 is particularly important because Toyota hasn't been able to compete in that highly profitable niche. Hefty tariff and shipping costs for the T100 have kept margins thinner than usual even for a Japanese auto maker, despite a sticker price that ranges from $14,500 for a low-end 4 x 2 to more than $24,000 for the loaded 4 x 4 pickup. Prices have risen about 7% this year, but that increase hasn't been enough to make the trucks profitable. Moreover, the company has been forced to offer dealer incentives of $2,000 to $3,000.

With Toyota already producing Corolla, Camry, Avalon, and Tacoma models in the U. S., the T100 plus the new minivan will raise the company's made-in-America line to six vehicles. There are more to come. "We expect that our list of North American-manufactured products will continue to grow," Okuda says. Likely candidates for U. S. production include the Lexus and the 4Runner.

BETTER POLITICAL CLIMATE. Toyota's timing is intriguing. Shifting production of the T100s to America is less sensitive politically now than it would have been when the truck was launched in 1992, an election year. The company's fear of political backlash also has ebbed because the U. S.-Japanese auto talks are over and the Big Three are making a push into Japan.

So it's a decisive new stage in Toyota's bid to expand its presence in North America. Many of the company's affiliated parts suppliers are likely to come along for the T100 ride, just as they did when Toyota set up shop in Kentucky. Thanks to these suppliers, the T100's local content will be 50%. That means Toyota is now the leader in the Japanese industry's effort to establish itself so deeply in the American heartland that Detroit will never be able to dislodge it.

By Edith Hill Updike in Tokyo, with Keith Naughton in Princeton, Ind., and Larry Armstrong in Los Angeles

A NON-TOYODA IN THE DRIVER'S SEAT

Hiroshi Okuda never seemed like your typical Japanese executive. As vice-president of Toyota's finances, he was brash, outspoken and quick to laugh. But since becoming Toyota's president in August, he has become more subdued, trading in his sporty blue Aristo for a conservative Crown Majesta. The job, he says, "is squeezing me."

Okuda is the first professional manager to rise to the presidency of Japan's No. 1 auto maker since 1967. It may be some time before the factory folks in Toyota City learn to love a president who is neither a manufacturing man nor a member of the Toyoda family. So the challenge for Okuda is to take on the coloring that's expected of a Toyota president, while retaining his decisive, energetic style. That's precisely what Toyota needs. "The company is at a transition point," Okuda says.

He succeeded Tatsuro Toyoda, who was known to be difficult to work for. His indecisiveness combined with a compulsion to micromanage created a bottleneck at the top. The reason he got the president's job in 1992 was that his older brother, Shoichiro, wanted him to have it. Shoichiro, then chairman, departed two years later to head Japan's leading business group, Keidanren.

But leaving Tatsuro alone at the top just wasn't working. A stroke in April left him partially paralyzed, which provided a face-saving excuse for a reshuffle. Okuda is well-liked and respected by both Shoichiro and the quasi-retired Eiji Toyoda. They engineered his move up.

HIROSHI OKUDA

Some insiders hope Okuda is an interim figure who will hold the reins only until the next generation of Toyodas is ready. But Okuda is a lively 63 and expects to remain in his post for more than a single two-year term. He recognizes that one day he will pass the job to a younger person. But not before he has set Toyota on the right track.

By Edith Hill Updike in Tokyo

ASIA

WHY KOREA'S CLEANUP WON'T CATCH ON

Seoul's neighbors share its corruption–but not its political will

It reads like a classic tale of revenge, with President Kim Young Sam purging his predecessors in a bid to secure his own future. But the bribery indictments of former President Roh Tae Woo and seven top businessmen on Dec. 5 are clear evidence that as South Korea's democracy deepens, the corrupt old system is gradually giving way to one that is more transparent and market-oriented.

Speaking before a national TV audience in sad, reverent tones, senior prosecutor Ahn Kang-Min outlined a pattern of massive corruption. Ahn said his team of 92 investigators questioned 400 witnesses and found that 35 business groups gave a total of $369 million in bribes to Roh during his term that ended in 1993.

Lee Kun-Hee, chairman of Samsung Group, led the list, with $32 million in bribes. Chairman Kim Woo-Choong of Daewoo Corp. came next, with $31 million. The bribes were often paid for specific government contracts. But Ahn said Roh also extorted money regularly from businessmen in exchange for their staying in the government's good graces.

LENIENCY. The disclosures left Koreans feeling shame and resentment. Yet the view that Roh shook down the *chaebol*, rather than vice versa, led to relatively lenient treatment of their chairmen. So did fear that their detention would hurt their conglomerates' operations and dampen the country's economy in the runup to next April's general election.

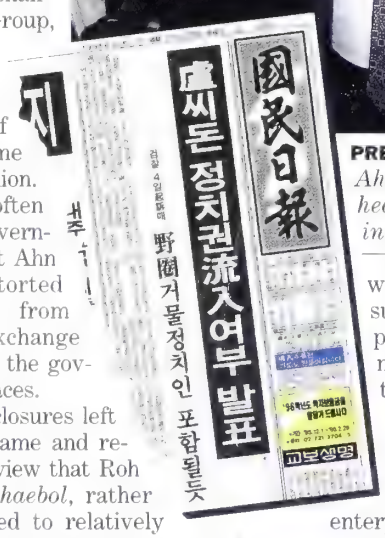
For that reason, the seven chairmen who were indicted on Dec. 5 were not detained. Instead, they are free to work as they face trials that are expected to conclude next spring in suspended sentences or fines. The stiffest punishment so far went to Hanbo Steel & General Construction Group Chairman Chung Tae-Soo. He is in prison.

The outcome was widely expected, and the Korean bourse rose 2% by the end of trading Dec. 6 on optimism that the worst was over. The exposures should sharply reduce payoffs in Korea. And that means the *chaebol* will have to compete more on merit.

It will also hasten the groups' transition from autocratic, family-run businesses to professionally managed enterprises. The government has already considered requiring them to appoint more outside directors to their boards. These developments come as the government is overhauling its financial sector, opening the door to more foreign companies and moving toward more professional handling of taxation.

A key question now is whether Korea's purification process will send reverberations throughout East Asia. The s of political and economic reform that K is promising certainly hasn't happen in Japan. There, the Liberal Democra Party, dethroned by a series of scand in 1993, is back as the biggest partner the ruling coalition. Promised politi reforms are full of loopholes, and th have yet to be tested in an election.

Similarly, in Taiwan's Dec. 2 electi voters expressed disgust with the corru ways of the ruling Nationalist Party, b there is little prospect of a fundamen assault on dirty-money connections. T wan's legal system makes it difficult punish officials who play money polit since there are no laws or regulatio governing corporate donations.



PRESS AND PROSECUTOR: *Ahn Kang-Min's headline-making probe involved 400 witnesses*

HOMEMADE. Korea's ab ity to confront gr owes much to its sty of democracy. Unli even nominally dem cratic Japan, Korea's sy tem was shaped something akin to revolution. The wate shed came in 1987, wh the middle class join students in demonstr tions that forced th President Chun Do Hwan to hold a dire presidential election.

The result is a Kore polity that feels more e franchised than Japa since Japan got its co stitution from the U. "Korea has become a d mocracy, but one th wants to examine how got here, how much it cost, and who responsible," says Chalmers Johnso president of the Japan Policy Resear Institute in Cardiff, Calif.

True, Japan's economy bears ma similarities to Korea's and is many tim bigger and more complex. If capitalis and a broad middle class were all th mattered, Japan's decision-making wou be the most transparent in the world.

Ironically, one reason Japan may more resistant to sweeping reform that its system is more mature and b anced than Korea's. More of Japan's co panies are professionally managed, a they enjoy tighter patterns of cooperati with the ministries that oversee the So for now, other East Asian states c only wonder if—and when—their ow people will discover the same impul that has driven Korea to confront a sy tem built on graft.

By Steven Brull in Seo with bureau repor

RAILWAY WORKERS: *Will Paris cave again to pressure from the streets?*

ANCE

LAYING OR ALL THE MARBLES

ppé vs. the unions: In the balance, Europe's future

s grumbling Parisians hiked and biked to work past padlocked Métro stations in the early-December chill, ortnight of public-service strikes was shing the government of Prime Min-er Alain Juppé into a painful dilemma. Juppé sticks with his plans to cut rkers' benefits and raise taxes, the ikes could widen, pushing France—d maybe even all of Europe—into re-ssion. But if Juppé caves, France will ver make the budget cuts needed to alify for monetary union with Ger-ny and other European countries by 99. Without the participation of ance, monetary union will collapse—d so will hopes for a wider European egration.

Thus this French crisis is a moment truth for all Europe. It's also a mo-ent that Juppé and President Jacques hirac have long ught to avoid. Dete-rating public finances ally forced Juppé to t tough with France's million-strong state nployees (table). Jup- wants to align their tirement plan with at of the private sec-r, requiring them to rk 40 years instead 37½. Some rail work-s now retire as young age 50 and are rongly resisting ange. Juppé also plans to freeze state workers' pay next year and to cut health benefits for all French workers.

But it's even money whether Juppé will successfully resist strikers. His predecessors, notably Edouard Balladur, had a history of yielding to pressure from the streets. Juppé insists he won't do so—even if he has to resign. In an angry speech to parliament on Dec. 5, he announced he'll consult—but not negotiate—with workers who are resisting his planned reforms.

Meanwhile, union leaders are digging in. So far they've offered no alternatives to cutting state deficits—an issue that's obviously low on their agendas. They promise a lengthy, militant strike. "The longer the strike lasts, the greater the demands will become," warns Marc Blondel, the blustery secretary general of one big union, Force Ouvrière. New groups are airing other gripes. Students have marched for higher education budgets. Hospital employees want higher wages, while postal and electricity workers have stayed home to warn against possible privatization.

PRIME MOVER. The strikes are already hurting business in France—and beyond. A lack of trains to carry its cars has forced Peugeot to lay off 1,700 workers at one French plant. Paris department stores say Christmas shoppers are 50% fewer than normal, because of transit strikes. General Motors Corp.'s German unit, Adam Opel, had to eliminate a work shift recently because parts from Spain couldn't cross France. Economists now forecast that the French economy is likely to shrink this quarter and grow by little more than 1% for 1996 vs. 2.4% this year.

Although wracked by problems, France still looms large as Europe's second-largest economy and as a prime mover of European unity. But Paris must muscle through its budget cuts fast. In March, an inter-governmental conference will consider where unity goes from here. If Juppé backs down, the answer will be: nowhere. "France has the keys to monetary union in its hands," says Jürgen Pfister, economist at Germany's Commerzbank.

With the possible exception of Britain's Conservatives—who bear little love for monetary union—most European governments hope Juppé sticks to his deficit-cutting guns. German Chancellor Helmut Kohl is undoubtedly pressuring Chirac to support Juppé. Market rumors suggest the two leaders may cut a deal to fix currency parities leading into monetary union and pledge their central banks to defend them. This would free France to cut rates to prop up its economy without devaluing.

Such a pact would be tough to enforce, however, unless the French reassure the markets by seriously cutting social spending. "France has reached the limits on the problems of 50 years," says French economist Elie Cohen. Europe will learn soon whether Alain Juppé is the man to fix them.

By Stewart Toy in Paris, with John Templeman in Bonn and William Glasgall in New York

Eight Months to a French Crisis

MAY Alain Juppé is appointed French Prime Minister by President Jacques Chirac, who promises to put job creation ahead of deficit-cutting.

AUGUST With a weakening economy hurting tax revenues, Juppé orders state ministries to cut budgets. But he also fires Alain Madelin, free-market Economics Minister, for suggesting that civil servants' "privileges" be reduced.

SEPTEMBER Juppé declares a freeze on civil servants' pay.

OCTOBER State employees strike for one day to protest the freeze. Later that month, Chirac says deficit-cutting is now the top priority.

NOVEMBER Juppé announces stiff tax hikes and benefit cuts to halve $12 billion in social security deficits. Public employees launch bitter strikes.

DECEMBER Statistics show French economic growth weakening.

DATA BUSINESS WEEK

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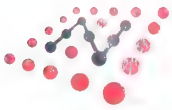

Novell

USED TO BE INSURMOUNTABLE, ISN'T

CANADA

THE CALL OF THE WILD IN WESTERN CANADA

Will seeking freedom from Ottawa's control fan separatism?

Edward E. McNally, CEO of Calgary-based Big Rock Brewery Ltd., is fed up with Canadian federalism—and Quebec's separatism. His sentiments are shared by a growing number of executives in Western Canada who see taxes from their resource-rich provinces subsidizing Eastern provinces, especially Quebec, half a continent away. Besides, says McNally, given Quebec's high beer taxes, "it's easier to sell in the U.S. than it is in Quebec." He's so frustrated that if Quebec wants independence from the Canadian federation, he says, they should be told "to get the hell out."

"DANGEROUS." Welcome to Canada's Wild West. Even as an aggrieved Quebec inches ever closer to secession, a Newt Gingrich-style right-wing is building momentum in Western Canada. Championed by the Calgary-based Reform Party, the movement wants to slash federal spending and give provinces control over programs ranging from health care to education. Meanwhile, the party's open hostility to Quebec's longstanding demands for a special role in Canada could give the separatists just the push they need to destroy the confederation. "The Reform Party is playing a very dangerous game," says former Prime Minister Joe Clark.

The timing is risky. On Oct. 30, Quebec voters narrowly defeated a sovereignty referendum. But polls show secessionist sentiment has actually risen since then. Prime Minister Jean Chrétien's challenge is to meet enough of Quebec's perennial demands to quell the rising support for sovereignty without permanently alienating increasingly vocal Westerners. But his latest unity plan, offered to Parliament on Nov. 29, has been rejected by both separatists and the Reform Party.

> Alberta allowed private clinics to open. Ottawa retaliated by withholding health-care funds

Unless Chrétien changes his strategy fast, warns Reform Party leader Preston Manning, "he'll lose the next and last contest with the separatists."

Manning says there's a way around the stalemate. Both the West and Quebec agree on one thing—that Canada needs to be radically decentralized. But Chrétien has offered provinces more control over just one program: employment training.

Nor has Chrétien satisfied Western demands for fiscal austerity. Alberta Premier Ralph Klein is enormously popular after slashing spending 20% as p of a plan to wipe out a $2.6 billion bu get deficit by next year. "These ste have absolutely improved the busine environment," says Doug Mitchell, pr ident of Calgary's Chamber of Co merce, who notes that Alberta's une ployment rate is just 7.6%, vs. 9.4% Canada as a whole. Mitchell predi Klein will soon cut taxes, which he sa are already the lowest in Canada.

POTSHOTS. The Reform Party has tak its crusade to Ottawa. It wants Canad budget balanced in three years and co trol over many programs passed to t provinces. Already, Alberta has perm ted private clinics to offer services w long waiting lists, such as cataract op ations. Citing erosion of "national sta dards," Ottawa retaliated by withholdi some of Alberta's health-care funding

Albertans and British Columbia upset with Ottawa's meddling, are t backbone of the Reform Party, found in 1987 by Manning. Under the 53-ye old former management consultan lead, Reform holds 52 seats out of 2 in the House of Commons—just one s of official Opposition status.

"Traditional federalism has broug this country to the very brink of dis ter," says Manning. Such talk has p the West on a collision course with Ch tien's conciliatory approach to Queb Chrétien's move to recognize the Fren speaking province as a distinct socie and offer it a veto over constitutio amendments would make Quebec supe ior to the other provinces, the Refo Party complains.

That may play into the hands of Qu bec separatists. But to quench separat flames, Reform is preparing a toug minded plan to make it "crystal cle before another refere dum, exactly what t negative implications of s cession are," says Ma ning. His party wou challenge Quebec's curre boundaries and threaten veto an independent Qu bec's application for membership in t North American Free Trade Agreeme

Despite growing pressure for chan from Quebec and Western Canad Chrétien is determined to fight for t status quo, with as few changes as po sible. If Ottawa can't put a lid on debt, it will eventually be forced to pr fer a larger role to the provinces. T only question is whether that will ha pen in time to head off divorce wi Quebec or as part of a messy breaku

By William C. Symon in Calgary, Al

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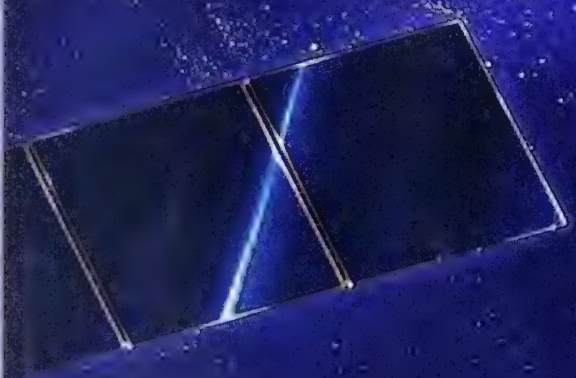

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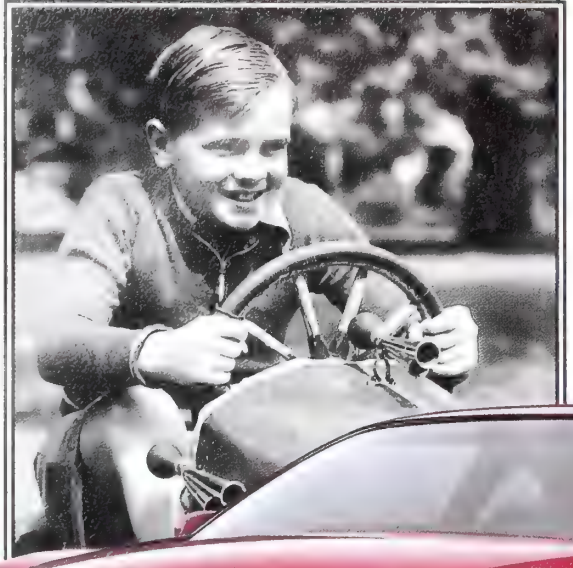

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CAN ZEDILLO PENETRATE MEXICO'S HEART OF DARKNESS?

President Ernesto Zedillo Ponce de León broke the unwritten rules of Mexican politics last March by jailing Raúl Salinas de Gortari, the brother of the former President, on charges of masterminding a political assassination. That ignited a bitter feud between Zedillo and Carlos Salinas, who wound up going into voluntary exile.

But things really heated up when Raúl Salinas' wife was arrested in Geneva last month while attempting to withdraw money from secret bank accounts holding $84 million. Raúl Salinas has now been charged with accumulating "illicit wealth" while in government in the 1970s and 1980s. Top Swiss prosecutors have flown to Mexico to question him about possible money-laundering and links to drug traffickers.

The probe into Raúl Salinas' activities could be the vehicle for exposing a vast system of business-to-government payoffs that has long been suspected in Mexico. It is already fueling a political battle that could lead to the demise of Mexico's long-ruling Institutional Revolutionary Party (PRI).

BIZARRE FAX. One of the big questions, of course, is what Carlos Salinas knew of his brother's activities—and whether he benefited from them. The former President, who has been charged with no crime, is now engaged in a desperate struggle to save his reputation. In a bizarre eight-page letter faxed Dec. 3 to Mexican news organizations, he denied any knowledge of Raúl's activities and moaned about being singled out as Mexico's "favorite villain." He also sought to quash speculation that he was somehow involved in the assassination of PRI presidential candidate Luis Donaldo Colosio in 1994. He suggested that rivals including former President Luis Echeverria were attacking him to destroy his free market reforms.

DENIALS: *Carlos Salinas*

These denials have not stemmed the mounting skepticism about Carlos Salinas. He has been hurt by the recent comments of former Mexican Controller María Elena Vázquez Nava, who said she warned Salinas about reports of his brother's activities. Salinas was worried enough about Raúl to banish him to a California think tank in 1992.

Prosecutors are interrogating a wide circle of Raúl's friends to try to determine where his millions came from. They're focusing on Raúl's role as a top official of CONASUPO, the government distribution agency for corn and other commodities. The Attorney General has also said he has evidence that Raúl Salinas may be linked to Mexican drug cartels.

Still, it is unclear whether these probes will go much beyond Raúl Salinas and, perhaps, his inner circle. A sweeping anticorruption drive could be a risky undertaking for Zedillo. It might implicate some of his own ministers, many of whom, like Zedillo himself, held senior posts under Salinas. It might also cost the President what support he has left in the business community. "Very rich, powerful Mexican businessmen were involved in some of these deals," says political scientist Emilio Zebadua.

But the outspoken opposition parties and the aggressive press are pushing for full investigations into corruption during the Salinas administration. The left-wing Party of the Democratic Revolution has demanded a probe into the 1990 privatization of Teléfonos de México, the phone monopoly. Sales of the state TV networks and the banks could also come under scrutiny.

Even if Mexico's own investigations get bogged down, Swiss and U.S. investigators may present Zedillo with impossible-to-ignore evidence of high-level corruption. The question remains, however, whether Zedillo will cast a wide net or try to finesse the issue by making examples of a few prominent people. The latter option still seems more likely.

By Geri Smith in Mexico City

GLOBAL WRAPUP

DID CHINA'S THREATS WORK?

▶ Major strides by Taiwan's conservative New Party in the Dec. 2 legislative elections will likely bolster China's confidence in its "missile diplomacy." The Chinese had held military maneuvers near the island to discourage voters from supporting pro-independence candidates. The move seems to have paid off: The New Party, made up of Kuomintang (KMT) deserters angry over President Lee Teng-hui's flirting with independence, has surged from 7 to 21 seats.

By comparison, the pro-independence Democratic Progressive Party gained only four seats. The gains came at the expense of Lee's long-ruling KMT, whose majority was trimmed to 85 seats in the 164-seat assembly.

Beijing is likely to keep the pressure on as the March presidential elections approach. There may even be a mock invasion of Kinmen, a Taiwanese island off China's coast. Lee's poll ratings have dropped, and he's facing more defections to the New Party.

EMBRYONIC MEDIA EMPIRE

▶ Thai media mogul Sondhi Limthongkul says he is risking $60 million of his own money to launch the *Asia Times*, which debuted in Hong Kong, Bangkok, and Singapore on Dec. 6. The English-language newspaper is part of a pan-Asian strategy that includes the magazine *Asia Inc.*, Internet data services, and an $80 million broadcast satellite to be launched in 1997. The 48-year-old former journalist hopes to create the first integrated, non-Western media giant.

WORKPLACE SAFETY

AN EXPLOSIVE MIX AT TRW

Air-bag-plant mishaps–and bad press–haunt the company

The sprawling factories used to go unnoticed under the bright desert sun. But for the past year, a parade of screaming fire engines has been piercing the calm surrounding the two air-bag-inflator manufacturing plants in Mesa, Ariz. The local fire department has responded to 21 emergency calls at one of the plants, the latest on Dec. 2. Now, with every rumor of a new problem, helicopters from nearby television stations swarm over the facility ready to record the slightest puff for the evening broadcast.

For owner TRW Inc., the frenzied atmosphere has become more than a public-relations nightmare. One contract construction worker was killed in an explosion at a facility, and a contract welder sustained extensive burns. State and local authorities launched at least three separate investigations into the company's safety procedures. A six-month grand-jury inquiry by the Arizona attorney general's office ended on Nov. 13 with the company paying $1.7 million in fines. The state agency overseeing occupational safety fined TRW $89,000 after it found that the company didn't have an effective fire-protection and fire-prevention program.

OVERREACTING? What's more, the Mesa Fire Dept. took the unprecedented step on Sept. 26 of shutting down one of TRW's plants for two days—forcing the nation's second-largest air-bag producer to scramble to meet customer orders. "It's supposed to be safety, quality, and quantity, in that order," says one Mesa worker who switched out of an area hit by fires after a harrowingly close call. "Well, they just wanted quantity, quantity, quantity."

Cleveland-based TRW argues that state and local authorities are overreacting. Company officials, supported by many employees, say they have taken all necessary precautions to protect workers from a manufacturing process that is inherently hazardous. For example, they say they have automated the processes in which explosions are most likely to occur to isolate workers from danger. They also have poured $50 million into sophisticated safety systems. "We never compromise safety," says John A. Janitz, executive vice-president of TRW's Occupant Restraint Systems Group, adding that TRW has set the industry standard for air-bag-plant extinguishing systems.

That may be. But critics note that other major players in the rapidly growing $5 billion business, including industry leader Morton International Inc., haven't had such persistent problems. Morton says it hasn't had a serious accident since two in 1989, when it and other makers turned to the nascent air-bag business in a big way. Officials at the Utah Occupational Safety & Health Administration and local fire authorities confirm Morton's safety record at its three Utah facilities. Moreover, unlike TRW, neighboring companies operating innately dangerous facilities in the Phoenix suburb of Mesa, such as McDonnell Douglas Corp., pay for on-site fire brigades. TRW says it considered creating its own fire unit but determined that Mesa firefighters were more than adequate.

The contrasting records have led some law enforcers to wonder whether TRW, in its zeal to meet soaring demand for air bags, has put production ahead of safety. "We are concerned about workers' safety and the safety of the citizens of Mesa," says Mesa Fire Dept.

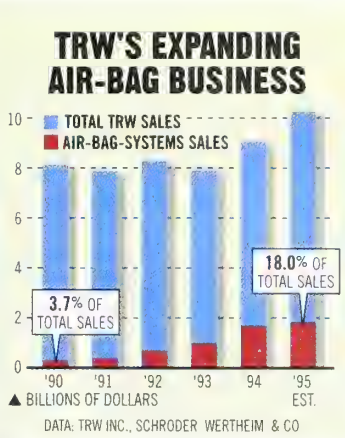
DANGEROUS IN MESA: *In one year, 21 fire emergencies*

ptain Clifford Puckett, whose squad 'vices the area's 320,000 residents. en some of the plants' 3,500 employ- question whether their jobs are rth the risk. Some of them complain lizziness or a ringing in the ears fol- ing explosions. "[The risk] does loom he back of your mind," says one TRW gineer in Mesa. "We are working with elievably volatile chemicals."

No kidding. In general, air-bag infla- s rely on the chemical sodium azide, ich is combined with an oxidizer and er materials to make the propellant t inflates the bags. Sodium azide be- nes volatile when mixed with other micals. Passenger-side inflators, ich are manufactured at one of the sa plants, use 10 times as much pro- lant as those for driver-side bags. A rp deceleration triggers the inflators, ich set off the air bag.

AIR RAP. Getting the chemistry just nt has meant big business. Air bags e been one of TRW's fastest-growing inesses (chart). To meet increasing nand, the conglomerate produced 65 v air-bag models in 1994 and dou- l its overall output from a year ear- to nearly 10 million units. TRW plans ncrease production to 13 million this r. With sales nearing $2 billion, the bag business will account for about -quarter of TRW's estimated $445 mil- lion in net profits this year, powering a strong financial performance after medicre returns in the early '90s.

But TRW still can't shake accusations of lapses in its safety practices. Janitz argues that the intense scrutiny is unfair, and he questions whether TRW is being measured by the same yardstick as its rivals. Company supporters wonder if fires and explosions at other manufacturers' more remote plants are simply going unnoticed. "The types of incidents they've had at TRW are no different than anywhere else," says Fred McIntyre, an explosives expert in Long Beach, Miss. "The difference is the City of Mesa is tuned in to the alarm system." Morton says all mishaps are properly reported.



Still, rivals admit they could face similar problems. "I knock on wood every day," says Jim Burtelow, president of Takata Moses Lake Inc., an air-bag maker in Moses Lake, Wash.

At TRW, supersensitive optical scanners have been used since 1990 to detect the early signs of a fire and to deploy high-speed extinguishers within milliseconds. Janitz explains that many incidents logged by the fire department don't involve the combustion of propellant. Rather, he says, they are more often the result of TRW's extinguishing systems, which can be triggered faster than the blink of an eye. "TRW has never had a fatal manufacturing accident or an accident that resulted in a serious injury in making more than 25 million air bags," the company states.

"[The company doesn't] want the word TRW to go over our radio channels, ecause the media pick up on it right away"

— CLIFF PUCKETT
Mesa Fire Dept.

Still, TRW's substantial safety mechanisms weren't enough to save Tony Fox, a construction worker employed by a TRW subcontractor, who was killed in a 1994 blast. While he was grinding a hole in a wall at the driver-side-bag plant, a spark set off an explosion of sodium-azide propellant, fatally wounding Fox and injuring six others. "It's a miracle more people weren't killed," says Dave Aguilar, an electrician who was among the injured. The families of two hurt workers filed lawsuits against TRW. Following an inquiry, the Industrial Commission of Arizona faulted the company for failing to train workers properly and for not having adequate fire-protection procedures in place. TRW has appealed those findings, arguing that it's not responsible for mistakes made by contract workers. A settlement is expected soon.

TRW's troubles have continued to plague its passenger-side air-bag plant. After an explosion in May, firefighters were kept waiting for eight minutes outside the facility while security tried to get permission to admit them. That incident was followed in September by two more explosions within five days of one another, each involving hundreds of pounds of propellant. "They were the straws that broke the camel's back," says the Fire Dept.'s Puckett. The next day, the department shut down the plant.

AMBULANCE PACT. TRW and the fire department have since worked out a 15-point plan for improving safety. Among other things, the company has eliminated its practice of grinding the sodium azide and oxidizer together, which fire officials believe was the source of some explosions. TRW has also installed additional barriers to stop the spread of fires and hired an outside consultant to upgrade safety systems.

Despite the improvements, TRW is still jumpy, say some employees. When a worker waited nearly an hour for an ambulance after accidentally backing a forklift off a 5-ft. platform, some employees say they were worried managers were reluctant to call for help out of fear of attracting more media attention. Soon after, workers recall, about a dozen employees met privately to assure one another that an ambulance would be called immediately in the event of another accident. The company doesn't "want the word TRW to go over our radio channels because the media pick up on it right away," says Puckett. A TRW spokesman says all incidents are reported promptly to the proper authorities.

For the moment, TRW's shipments to Ford, GM, and other auto makers haven't been slowed by the fires and explosions. And like the rest of the industry, TRW plans over the next few years to replace the sodium azide used in its inflators with other, less volatile chemicals. For an industry making life-saving devices, those changes can't come too soon.

By Zachary Schiller in Cleveland and Eric Schine in Mesa, Ariz.

Cover Story

THE BOOM IN IPOs

It's fueling innovation and transforming the U.S. econom

Bond prices are surging. The stock market is on a roll. And Wall Street is bombarded almost daily by companies selling stock for the first time. The action in these initial public offerings (IPOs) dwarfs anything seen in the past quarter century. Newly minted companies are on track to raise a record-breaking $12 billion this quarter, bringing the year's total to some $29 billion. Even more impressive, approximately 2,800 private companies have harvested more than $130 billion going public since 1990, and the Standard & Poor's new-issue index is up by 538% vs. 84% for the S&P 500-stock index. Marvels Stephen G. Woodsum, managing partner at Summit Partners, a Boston-based venture-capital firm: "I don't think we've ever seen such a sustained period in which the IPO market was this good."

Entrepreneurs are raking in the coin. The IPO market is even creating a few billionaires overnight. Pixar Animation Studios, the computer animation company controlled by Steven P. Jobs, was initially to be priced at $12 to $14 a share. Demand was so strong that it went public on Nov. 29 at $22 and closed at $39. Jobs's 80% stake at the end of day one: $1.1 billion. Netscape Communications Corp., a maker of software for navigating the Internet, went public at $28 a sh last August. Its stock price was up to $171 on Dec. 5, mak Chairman James H. Clark a Netscape billionaire.

MAVERICKS. Is it a bubble? Hardly, although there are l turbing signs of froth in parts, and the IPO market is hig vulnerable to any abrupt shift in market sentiment. fears over the near-term twists and turns in the mar prices miss the fundamental point: The IPO market is fue the innovations that are transforming the U. S. economy the world's productivity powerhouse. The driving force bel the technological revolution changing the way we live work is the maverick, the risk-taker—in other words, the ntrepreneur. And backing the entrepreneur is the most sop sticated capital market in the world. "Without IPOs, you w not have any startups," says Netscape's Clark. "IPOs sup the fuel that makes these dreams go. Without it, you die

Call it IPO capitalism. Innovators are reshaping such old- industries as airlines, steel, and retailing, driving young dustries such as software and biotechnology to new fr tiers, and even building whole new industries, such as Internet. Some high-tech adventurers are pushing the en lope in computers, software, and telecommunications,

THE POWER OF STARTUPS

A tidal wave of initial public offerings is sweeping Wall Street. Companies are raising billions and feeding a surge in creativity not seen in decades. Fortunes will be made and lost as entrepreneurs build new industries and revitalize old ones

antly building new products that raise efficiency. Other ıtrepreneurs pinpoint what customers really want and cre- e better products and quality services at lower prices. "In- ıvation breeds more innovation," says Pixar's Jobs.

Entrepreneur-driven businesses are spreading across the ıntry. They're no longer an important tributary of the merican economy but a major part of the business main- ream. IPO capitalism is a vital force in the remarkable re- ırgence in U.S. competitiveness in the global economy, es- ·cially in many leading-edge industries. Says William A. ıhlman, a professor at Harvard business school: "No one se has it. Not Germany. Not Japan." Adds Stephane Garel- professor at the International Institute for Management evelopment and director of the IMD's World Competitiveness ·oject: The U.S. IPO market is "a valuable and unique eco- ımic franchise. It's absolutely a comparative advantage for e U.S."

ODUCTIVITY. IPO capitalism is being propelled by a series of nultaneous, self-reinforcing trends: Successful first-genera- ın high-tech entrepreneurs are funding a new generation of novators; technology is creating new opportunities for entre- ·eneurs; hordes of enterprising people are starting their vn companies; and pension and mutual funds are increasing- eager to invest in emerging companies. Taken all together, oney and ideas are combining at a faster ıd faster rate, creating new markets and ·w products which, in turn, replenish the o well. "The real gains for growth come om getting as many people as possible arching for new ideas and discovering dif- rent ways of doing busi- ıss," says Paul Romer, onomist at the Uni- ırsity of California at ·rkeley. "The most im- ırtant thing is to have ts of people searching . over."

The state of the IPO arket reflects the health of the U.S. economy. The market was dormant during the 1970s, when high inflation ravaged financial investments and fierce foreign rivals savaged America's industrial giants. The entrepreneurial revolution did not grab national attention until Apple Computer Inc., Genentech Inc., and other high-tech companies went public in the early 1980s. Each succeeding IPO wave has been bigger than its predecessor, leaving in its wake a larger, more vibrant entrepreneurial economy. And it's no coincidence that IPOs are exploding along with productivity: In the 1990s, nonfarm productivity has been rising at a 2% rate, twice the pace of the previous two decades. (Government

Money and ideas are combining at a faster rate, creating new products that replenish the IPO well

STIMATE DATA: SECURITIES DATA COMPANY

statisticians are revising the productivity numbers, but the new figures will also display quickening productivity.)

Sure, the $29 billion in new equity that companies will raise in 1995 looks like a drop in the bucket when compared to the $6 trillion value of the stock market this year. But all that trading activity doesn't go into corporate coffers. Investors are just buying and selling existing securities in the marketplace.

In sharp contrast, an IPO is the pinnacle of a long chain of new money invested in a highly risky venture. It typically begins with an entrepreneur tapping into personal savings to develop an idea. Later, the entrepreneur persuades wealthy private investors or even a venture capitalist that the business has intriguing growth prospects, and they seed the startup with somewhere between $100,000 and $1 million. The business grows, as does its need for investment capital. The money can come from the traditional venture-capital industry, which is made up of more than 500 venture-capital funds that invest between $3 billion and $4 billion a year in some 3,000 companies or the invisible venture-capital industry, drawn from some 2 million self-made high-net-worth individuals who conservatively invest between $10 billion and $20 billion a year in more than 30,000 ventures, says William E. Wetzel, director emeritus of the Center for Venture Research at the University of New Hampshire.

ALARMING DIPS. Many of these high-risk enterprises fail. For the ones that succeed, investors cash in on their equity stakes and raise even more capital to expand the business by either selling the company to a corporate acquirer or by selling stock in the market. Going public is the preferred route, because management remains in control of the company that it built. "IPOs are critical for the market in allocating capital to new ventures and new products," says Cliff Smith, professor of finance at the University of Rochester. "IPOs are a big part of what makes the whole capital market process possible, allows the economy to tap into entrepreneurial zeal—and we're all wealthier for it."

To be sure, at today's lofty levels, the stock market is susceptible to alarming dips. Because IPOs are typically high-risk, volatile stocks, they will fall far and hard during

All Kinds of Companies Are Going Public

Initial Public Offerings, 1995

ISSUER	BUSINESS	ISSUE DATE	OFFER PRICE	PE EN FR C PRE
AMERIGAS	Petroleum and gas	4/12	$21.25	
ENI	Vaccines	11/26	$32.88	
PMI GROUP	Mortgage insurer	4/10	$34.00	
UNION PACIFIC RESOURCES	Mining and oil	10/10	$21.00	
PRUDENTIAL REINSURANCE	Insurance	10/02	$16.75	
INTIMATE BRANDS	Accessory stores	10/23	$17.00	
GUCCI GROUP	Luxury retailer	10/23	$22.00	
BORDERS GROUP	Bookstores	5/24	$14.50	
ESTEE LAUDER	Cosmetics	11/16	$26.00	

DATA: SECURITIES DATA CO; BUSINESS WEEK

The NeXT Frontier

STEVE JOBS
President & CEO
Pixar

In the blink of an IPO, Steven P. Jobs went from a Silicon Valley has-been to the toast of techdom. And he's not done yet.

For a decade, Jobs has tried to recreate the magic of the first company he co-founded, Apple Computer Inc. After being tossed out of Apple in 1985, he launched NeXT Computer Inc., which he set out to build into a "$1 billion computer company." But NeXT fell woefully short of that goal, and wags gleefully wrote him off. Big mistake. On Nov. 29, the initial public offering of Steve Jobs's other company, Pixar Animation Studios, maker of the hit movie *Toy Story*, became a smash on Wall Street.

The quintessential entrepreneur, Jobs didn't just kick back after losing a power struggle with then Apple CEO John Sculley. Instead, he used the fortune he had made to invest his way back into the fray. He first sank $7 million into NeXT—and later more than $20 million more—then began building a powerful desktop computer. In 1986, he bought Pixar for $10 million from LucasFilms, the studio that made the famous *Star Wars* series. It took almost 10 years and $50 million from Jobs for Pixar to come up with the first computer-generated feature film. The magicians at Pixar are already at work on their second computer-animated movie for Walt Disney Co.

Jobs still has big plans for NeXT. Two years ago, after NeXT computers failed to catch on with customers, Jobs dumped the hardware side of the business and refocused NeXT on the company's object-oriented software—chunks of code that allow developers to create software in a fraction of the usual time. The result: In 1994, NeXT reported its first yearly profit of $1 million on revenues of $49.6 million.

Now, the Internet explosion opens up another market for NeXT. The company's WebObjects software, which will be available in the first quarter of 1996, is for quick development of applications for the World Wide Web. If WebObjects takes off, analysts say, NeXT could be another IPO winner—as early as next year. What does Jobs think? "Who knows. I just want a rest," he says. But don't count on that lasting.

By Kathy Rebello in San Francisco

...But High-Tech Stocks Stand Out

Initial Public Offerings, 1995

	BUSINESS	ISSUE DATE	OFFER PRICE	PERCENT CHANGE FROM OFFER PRICE TO DEC. 5
VE S	Telecommunications software	11/30	$19.00	153%
ING	Data security on Internet	11/17	$16.00	258%
NIMATION	Computer animation	11/29	$22.00	30%
PE IICATIONS	Internet navigator	8/9	$28.00	511%
SS	World Wide Web technologies	6/27	$17.00	574%
L LOGIES	Telecommunications	11/30	$13.00	80%
	Troubleshooting software	3/17	$23.00	189%
OFTWARE	Database software	11/6	$17.00	163%

DATA: SECURITIES DATA CO.; BUSINESS WEEK

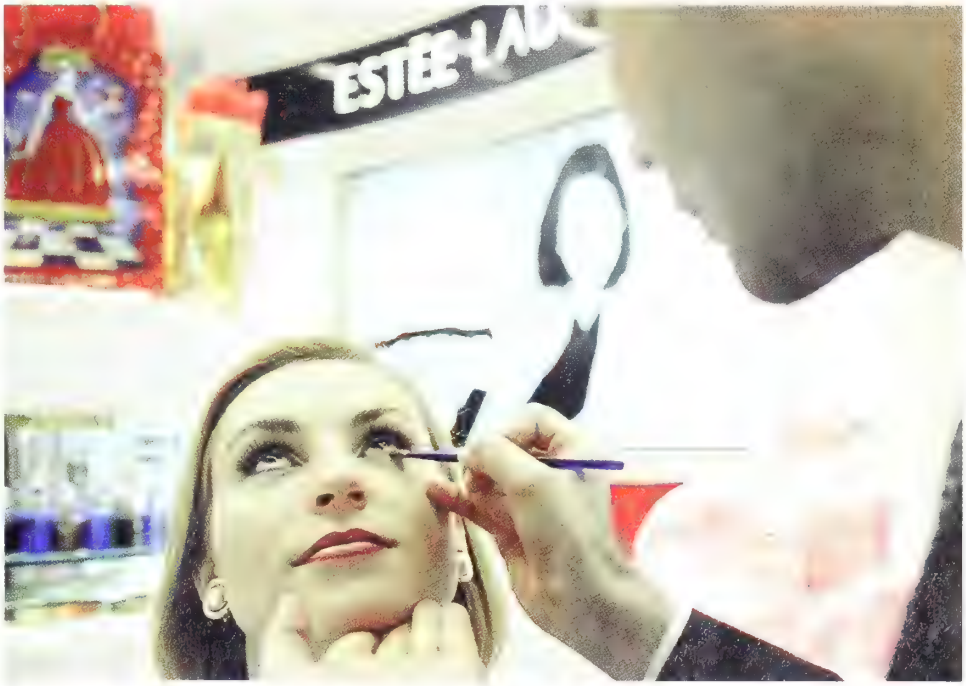
arket downdraft. Many market mavens fear the market is eady far too euphoric. With many IPOs selling at astronomil premiums—especially anything with "Net" or "Web" atched to its name—they expect a crash any moment. Says vestment banker M. William Benedetto, chairman of Benetto, Gartland & Greene Inc.: "This is the most heated IPO arket I've ever seen in 30 years. I'm very concerned."

Despite these fears, the economic fundamentals appear farable for long-term owners of new and seasoned equity ises alike. After all, the IPO mart doesn't exist in a vacuum, d a robust stock market does er strong underlying support. sinflation is well entrenched, d productivity growth is climbg. Investors are pouring money o the financial markets, much it through popular tax-derred retirement savings plans ch as 401(k)s. A federal budget mpromise is within reach, the deral Reserve Board has plen of room to ease, and bond arket yields have tumbled to eir lowest levels in two years. re, the IPO market is giddy in ices, but "I'm not seeing a lot junk," says Daniel L. Miller, managing director at Putnam vestments, the mutual-fund gi t. "We're nowhere near crazy ritory."

The strong stock market is enraging all kinds of companies sell new issues of stock. Fastowing consumer businesses, ch as microbrewer Boston Beer, aker of Samuel Adams, and te's Brewing Co., maker of te's Wicked Ale, have gone public. So are companies of ag g entrepreneurs like Estée Lauder, eager to liquefy and dirsify their wealth for their heirs. In early November, the smetics giant Estée Lauder sold 15% of the company at $26 share. Its stock price climbed 33% during its first day of ding. Corporate restructurings are also filling the IPO pipeline: Prudential Insurance Co. sold its reinsurance business on the open market and Kmart its Borders bookstore business. Master dealmaker Ronald O. Perelman, who has already taken several pieces of his corporate empire public in the early 1990s, is planning on an IPO of Revlon, the cosmetics company he acquired in the 1980s.

CATALYTIC EFFECT. It's no accident that a powerful takeover market and new-issue market have gone hand in hand for much of the 1990s. For one thing, a healthy stock market makes it easier for companies to strike financial deals. For another, caught in a brutal struggle for survival in a world of intense competition, many large companies are snatching up competitors at home and abroad to expand their global market share and jettisoning everything else. "The common link is that there is a rapid competitive evolution in the U.S. economy," says Bruce Steinberg, an economist at Merrill Lynch & Co. "Older sectors of the U.S. economy have too much capacity, while other new dynamic sectors are expanding, like high-tech." Indeed, it's the fast-growing entrepreneurial companies that explain why total employment is rising while large companies slice and dice their payrolls.

Even one successful IPO can have a catalytic effect on the economy, forcing everyone to sit up and take notice. For instance, by the late 1970s, medical researchers and academic scientists had made great strides in genetic science. Yet it was unclear whether or not a biotechnology industry was a sustainable business proposition. In 1980, the tremendous market reception given Genentech's IPO unlocked financial purse strings and persuaded many scientists to start up companies. Similarly, the Netscape IPO helped propel the Internet and the World Wide Web to the forefront of the computer industry, forcing such established software companies as Microsoft to respond quickly to the emerging threat.



GLOWING: *Estée Lauder, a nontechnology stock, soared in initial trading*

In the world of IPO capitalism, success feeds on success, and the pool of sophisticated investment money is growing fast. Jim Clark, one of the principal founders of Silicon Graphics Inc., which went public in 1986, used some of his gains to invest $4 million in Netscape. Steve Jobs put $60 million into Pixar. Paul G. Allen, a co-founder of Microsoft Corp., has funded such companies as Asymetrix Corp., a software-tools maker in Bellevue, Wash., and Starwave Corp., a multimedia and online software player. A. C. "Mike" Markkula Jr., another Apple founder, is financing Echelon Corp., an industrial auto-

BOSTON BEER, *brewer of Samuel Adams, tapped the market*

mation company, and Volant Ski Corp., a high-tech stainless-steel ski equipment maker.

The entrepreneurial multiplier effect is powerful. Case in point: William M. Haney III, the 33-year-old chairman and chief executive of Molten Metal Technology. He started his first environmental business while an undergraduate at Harvard University and reaped about $15 million at age 26 by selling his stock after the company went public. Haney invested his profits into two startups: One, Energy BioSystems, is a Texas company pioneering the use of bacteria to actually eat sulfur in high-sulfur oil. The other is Molten Metal, a startup trying to dispose of hazardous wastes in an environmentally friendly process. He has been cashing in his stake in Energy Biosystems, recycling the money into two new startups, one in software and the other in energy-efficiency technology. Molten, which went public in 1993, has a market capitalization of about $900 mil n and employs 280 people, with pl s to have 550 workers by this t e next year.

The Puget Sound area has e come a fertile spawning ground r startups, thanks to lucrative e ployee stock options at Micros t, McCaw Cellular, Aldus, and ot r high-tech companies. After Al the desktop publishing software e veloper, went public in 1987, e ployees Jeremy Jaech and Ted Jo son used stock options as s money to start Visio, a graph software company, in 1990. V went public on Nov. 9 at $1 share and now trades at $25. crosoft alumnus James N. Phil joined Microsoft in 1990, and 1994, along with his partner, Da J. Steckler, cashed in stock opti to found Nobeltec, which produ navigation software for boats. san Lammers worked at Micros for six years and Gates-owned C bis for three years before using Microsoft options to start Headb Interactive, a multimedia compa

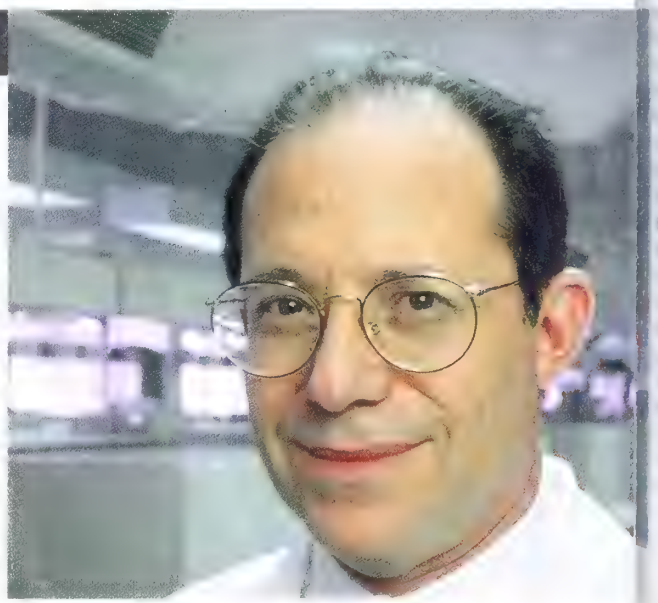
HIGH-RISK DEALS. Institutional vestors are jumping into the m ket. More pension funds are try to boost their long-term returns doing high-risk private equity de including venture-capital partnerships and leveraged buy funds. Big institutional investors account for much of new money flowing into venture-capital partnerships.

At the same time, mutual funds are major buyers new equity issues. Three years ago, mutual-fund comp Putnam had about $6 billion to invest in IPOs and ot emerging-growth stocks. Today, mainly because of the h cash inflows generated by 401(k) and other retirement s ings plans, Putnam has about $18 billion to invest. "We tending to buy more IPOs because we have more as under management," says Daniel Miller. Adds Joel Til ghast, manager of Fidelity's Low-Priced Stock Fund: "

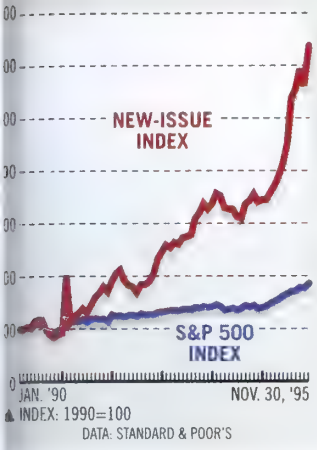
Mr. Green Genes

Call him the reluctant entrepreneur. When HealthCare Investment Corp. came knocking on William A. Haseltine's door, asking the Harvard scientist to head a bold new gene-sequencing venture, the virologist was intrigued but skeptical. Haseltine had advised HealthCare before, helping the Edison (N.J.) investment firm start several companies. But not until HealthCare's chairman, the late Wallace H. Steinberg, conceived of a company that would find and try to patent a majority of the human genes in 1993 did Haseltine jump. The lure of becoming Human Genome Sciences Inc.'s CEO was heading up a revolutionary venture with sound financial backing. Like most biotechs, HGS is burning money. But the market values HGS, which went public in 1993, at $500 million.

WILLIAM A. HASELTINE
Chairman and CEO
Human Genome Sciences



The New-Issue Market Races Ahead



desk is littered with prospectuses."

The rise of big institutional money in the entrepreneurial game is a mixed blessing. In order to tempt the big boys, many venture capital firms find they have to focus on well-seasoned, larger enterprises in need of large infusions of capital. So some smaller companies can find it a lot harder to raise seed money. Similarly, the typical IPO is microscopic compared with the size of the typical mutual fund, and its buying power can send ›ck prices way out of whack with the fundamentals. Still, ɜ overall quality of entrepreneurial companies is generally ;her than before and they include a wider range of indus-es. One reason is that pension funds and other institu-nal investors have become savvier in evaluating deals over ɜ past decade, says Josh Lerner, professor at the Harvard siness school.

Perhaps most important, the lure of a big score in the IPO ırket is attracting good people, which should keep the ality of future deals high. Says Rodney L. Goldstein, man-ng partner at Frontenac Co., a Chicago-based venture-cap-l firm: "It wasn't that long ago that the best and brightest grated to large companies. It's now axiomatic that they will grate to emerging companies." Five years ago in the Bos-ı area, the majority of entrepreneurs seeking venture ıding were laid-off managers from the likes of Digital uipment Corp., Wang Laboratories Inc., and other high-h companies. Today, many have good jobs and plenty of op-ns in the corporate world yet are determined to strike out their own. "The psychological impact of this IPO market ɜs far beyond the dollars and cents of the particular deals ting done. It creates a lot of excitement in would-be entre-ɜneurs," says Gordon B. Baty, a partner in Zero Stage pital, a venture-capital firm based in Cambridge, Mass.

Going public offers many competitive advantages beyond ɜ money raised or the fortunes made. Customers feel more ɜure doing business with a public company because its ance sheet is an open book, says Jim Clark of Netscape. ɔreover, savvy entrepreneurs can use their IPO currency to y other companies and expand their franchise. And being a ɔlic company makes takeovers easier to negotiate. "As a vate company you argue what you are worth as well as at the buyout candidate is worth," says Visio's Jaech.

ANSITION WOES. Take America Online Inc. It went public March, 1992, at $11 a share; after adjusting for stock its, its stock is at $352. The online service has sold shares the public three times, raising more than $215 million. unded in 1985, AOL grew at a modest pace. Since its 1992 , it has expanded at a heady pace. The company went m 350,000 subscribers in early 1993 to roughly 4 million rently, while revenues went from $38.7 million to more n $1 billion, and the number of employees has risen from) to 2,700. AOL also used a combination of cash and stock to ke acquisitions.

Of course, many entrepreneurs find the transition from ning a private company to a public one daunting. Just put-g together an IPO is a time-consuming process that can di-t management energy and attention. Security Dynamics Technologies Inc., a company with 150 employees that supplies products and services for guarding access to networks, went public in December, 1994. CEO Charles R. Stuckey recalls that he devoted 40% of his time over a period of six months to the IPO; now he spends about 10% of his time dealing with the demands of being a public company.

Thus far, Shikhar Ghosh, chairman of Open Market Inc., a Cambridge company selling software for performing electronic commerce on the Web, feels his company doesn't have

Nothing But Net

As phenomenal as Netscape Communication's stock market rise is, it's nothing next to the ascent of its 50-year-old founder, James H. Clark. He grew up in poverty in rural Plainview, Tex. Suspended from high school for antics such as sneaking in whiskey on a band trip, he dropped out to join the Navy. There, he discovered electronics.

Armed with a PhD in computer science, he eventually landed a professorship at Stanford University in 1978 and threw himself into research on computer graphics. The result: a set of chips that made computer graphics come alive. But he had a tough time selling to computer companies, so Clark started his own company—and Silicon Graphics Inc. went on to become famous for creating the dinosaurs of *Jurassic Park*.

JIM CLARK
Founder
Netscape

He butted heads with managers who opposed his desire to make lower-cost machines. So he left, giving up $10 million in SGI stock options. Then he struck gold again after meeting Marc Andreessen—inventor of the pioneering Mosaic software for browsing the World Wide Web—and bet on the Internet. Clark and Andreessen came up with a radical new strategy: Give away Netscape's browser and make money from software that gets companies on the Net. Within months, Netscape's software ruled 75% of the Web, leading to its triumphant initial public offering last August. "Ultimately, the Internet will even subsume the phone network," he says. Arrogance? Maybe. But that's what has made Clark the rarest of entrepreneurs: a two-time winner.

By Robert D. Hof in San Francisco

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the basic earnings engine in place to go public. "The biggest management trade-off [in going public] is that when you are at an unpredictable stage of the company's growth, you're forced to predict" your earnings and revenue growth, he says. "If you miss a few percent on your revenues and profits, you can see the stock fall 20% or more. It's a public execution."

Rising IPO prices can sometimes generate too much enthusiasm, and there are signs that some investors are growing wary. For instance, Pericom Semiconductor had to postpone its 2 million-share IPO.

Yet disappointment is an integral part of this market. And at least from a macroeconomic point of view, that's all for the good. Sure, some investors will get burned and some entrepreneur dreams will be dashed. In so many businesses, especially those at the technological frontier, it is highly uncertain which management vision, organizational setup, or newfangled product is the right one. Finding out what does not work is as important as discovering what does work. "Two years from now, many of these IPOs will be down, but some will be up—way up," says Greg Jarrell, finance economist at the University of Rochester. "That's very desirable for the economy because it indicates the market is doing what it's supposed to do—winnowing out the losers and rewarding the winners."

It's also striking how failure is not a badge of dishonor in the entrepreneurial community. It's part of the learning process. "And the ones who fail will give us a new generation of entrepreneurs who have learned from their failures and those that want to try again will do so," says Timothy Bresnahan, economist at Stanford University.

In the rest of the industrial world, small companies don't fail—because few come to market. In Europe and Japan, where banks play a key role in financing companies, risk capital is scarce. Entrepreneurs are hamstrung by regulations designed to limit competition and preserve cozy business relations. True, the London and Paris stock markets recently began listing small-cap stocks on alternative markets designed for startup companies. Still, "there are a lot of companies with brilliant ideas and brilliant technology that will never take off because we don't have the risk capital for that," says IMD's Garelli.

Risk-takers are being rewarded by IPO capitalism like never before. That's all to the good. It will ensure continued innovation and stronger economic growth.

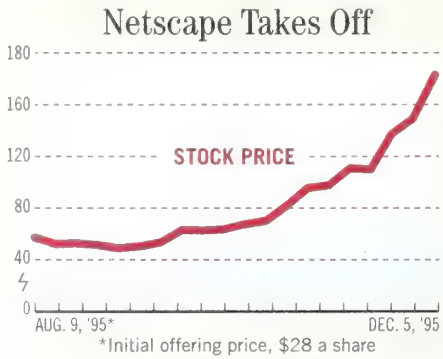
By Christopher Farrell in New York, with Kathy Rebello and Robert D. Hof in San Francisco, Mark Maremont in Boston, and bureau reports

SHOULD YOU JOIN THE IPO STAMPEDE?

These are dazzling days for initial public offerings. Netscape Communications Corp.'s stock is hitting the stratosphere. Estée Lauder is up 35% and Gucci 68%. Small investors can profitably invest in IPOs. But if lured by the quick buck, it's easy for them to get sandbagged.

Most individual investors are at the bottom of the money chain. Venture capitalists, entrepreneurs, and other startup investors in a private company do exceptionally well when it goes public. The new-issue price is way above the cost of their equity investments. Around the time of an IPO, Wall Street underwriters (called a syndicate when there is more than one investment bank) like to dole out blocks of stock to large institutional investors and a few favored high-net-worth customers. These preferred investors do well, too. Underwriters typically price a new issue 10% to 15% below what they guesstimate investors are willing to pay in order to ensure a favorable reception.

DON'T OVERPAY. Small investors are usually shut out of the action until trading in the newly public stock begins. But with many IPOs showing their biggest gains during the first few days of trading, it's easy for an investor to overpay, limiting future investment returns. Numerous studies have demonstrated that the average IPO bought at the end of the first day of trading subsequently underperforms the market, according to Jay R. Ritter, finance professor at the University of Illinois at Urbana-Champaign. Says Jeremy Siegal, professor of finance at the Wharton School: "At the offering price, IPOs are good investments. But at the first trade price or in the first few days, they are usually overpriced."



*Initial offering price, $28 a share
DATA: BLOOMBERG FINANCIAL MARKETS

The IPO market is susceptible to infectious waves of investor enthusiasm that can last more than a few days. The 20-year-old biotech industry has made outstanding medical advances and developed impressive products. Investors got carried away with the promise of biotech in the early 1990s, and stock prices surged wildly higher—only to crash in 1993. This tendency toward big price swings can be exacerbated by "momentum" investors, often large mutual funds and sophisticated hedge funds, which skim profits by rapidly shifting money from one high-flying stock to the next.

SIT BACK. Fact is, IPOs are mostly high-risk, high-reward investments. For most investors, the best way to play volatile IPOs is to own a diversified portfolio of newly minted companies, perhaps through small capitalization and emerging-growth equity mutual funds. For individuals who prefer owning individual companies long term, market veterans suggest sitting back for at least a year after an IPO. You can often pick up a good company at a reasonable price once the market gunslingers have moved on. More active traders can sometimes get in on the action after a few weeks. Look at Netscape. It was offered at $28 a share on Aug. 9. It immediately took off, rising as high as $78 that day, only to close at $57. It traded in that range for two months and then started to make its big move to $171 on Dec. 5.

By all means, invest in IPOs—slowly and carefully.

By Christopher Farrell in New York

Could An End To Child Abuse Be A 386-Yard Dogleg Away?

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Join us as Raymond Floyd and a host of celebrities and professional golfers tee it up in the Lexus Challenge, a tournament whose proceeds go to support Childhelp USA, a national organization dedicated to the treatment and prevention of child abuse. For more information about Childhelp, watch the Lexus Challenge December 16th and 17th on NBC, or call Childhelp at 1-800-4-A-CHILD.

Childhelp USA

INVESTIGATIONS

JOE GRANO COULD USE A LITTLE FINANCIAL ADVICE

The PaineWebber heir apparent has invested in a string of deals that went sour

For Joseph J. Grano Jr., it's been a long road to the top. A man who dropped out of college and still loves to reminisce about his experiences as a Green Beret in Vietnam, he joined Merrill Lynch & Co. as a broker in 1972. In 1988, he joined PaineWebber Inc. as head of retail and in 1994 he became president. In the last year, Grano has emerged as heir apparent to CEO Donald B. Marron, and Grano now runs the firm on a day-to-day basis.

Smooth and gregarious, Grano has a reputation as a strong manager of the firm's 6,125 brokers, which puts him at the heart of a major shift in PaineWebber's strategy. Just this fall, the firm began scaling back its investment-banking ambitions to focus on retail. Analysts applaud the move as a return to what PaineWebber does best: helping wealthy clients with their investments.

Grano's personal investment savvy, though, leaves a great deal to be desired. BUSINESS WEEK has uncovered details of four private ventures in the 1980s, which is still a lingering issue at the firm. Three either failed or are great disappointments. A project to create a glitzy Vermont ski resort ended in a total loss to Grano and his investors and gave rise to allegations of mismanagement and sloppy bookkeeping. BUSINESS WEEK has learned that the Federal Bureau of Investigation has been looking into the resort's affairs. Grano's investments in two Maryland racetracks have also been disappointments. And two Colorado casinos that he lent money to in 1991 went bust. His sole success? A racing stable, now closed.

HIGH LIVING. Grano's losses were so severe that Marron advised him to declare personal bankruptcy. Grano declined and instead PaineWebber lent him $6 million, $4 million of which is outstanding. The loan, which matures in 1996, is not being amortized. And the 3.83% below-market interest is being picked up by PaineWebber, though Grano has to pay about $75,000 a year in taxes on the arrangement. PaineWebber says the board's compensation committee approved the loan. "The honest truth is, it's a perk," admits Grano. PaineWebber, meanwhile, loses use of the $4 million until the loan is repaid.

Grano's biggest disaster was the Vermont ski resort limited partnership. Grano was the project's chief executive until 1986 and one of four shareholders in Summit Ventures, the resort's general partner. Grano envisioned turning a shabby, family-oriented ski area called Mt. Ascutney into a ritzy Vail-caliber resort for Wall Street's upper crust. In 1983, he recruited as investors such Wall Street bigwigs as Merrill Lynch CEO Daniel P. Tully. In 1990, Mt. Ascutney filed for bankruptcy, one of the biggest in the state's history. Industry experts say the resort was doomed by a business plan based on ludicrously optimistic assumptions. Grano and the other managers of the resort were criticized by accountants working for the bankruptcy court for overspending on jets, limousines, and travel and entertainment expenses. "The operation was poorly managed and what management was done was at an exorbitant cost," said a report by the accounting firm, Gallagher, Flynn & Co.

BAILED OUT: *PaineWebber gave Grano an interest-free lo*

Grano blames the Mt. Ascutney failure on the downturn in the real estate market and tax-law changes in 1986 that made limited partnerships less attractive to investors. Grano says he went beyond the call of duty by lending the resort $4 million to keep it running before and after the bankruptcy. And he says by not declaring bankruptcy he honored his obligations. "In this business, your word is your bond. I chose to stand up," he says.

Grano denies ever using Mt. Ascutney funds for personal enrichment, instead portraying himself as a self-as would-be savior of the resort who continually reached into his own pocke

without being reimbursed. He says never took a salary, never asked to eimbursed for $2 million in Ascut-related expenses he says he paid, pt for $45,000 in T&E expenses men-ed in the accountant's report.

ven at the start, the Mt. Ascutney ect did not have the aura of a win- It had been in and out of bank-cy twice before Grano bought it bankruptcy court for $1.5 million. south-facing, snow-starved slopes a low elevation and only four ski The huge Killington ski complex is a short drive away.

hat didn't dampen Grano's enthu-m, though. He, Ira B. Lampert, a Island accountant who was a part-in some of Grano's other projects, two other general partners raised orrowed $80 million. The plan was uild a luxury hotel, conference cen-health club, golf course, and condo-ums to be used as second homes. at gave credibility to the deal was Grano was a very substantial guy Ierrill Lynch and he was putting own capital on the line," says one Ascutney investor.

y 1987, the resort was running into us trouble. Problems ranged from condo sales to construction delays—the hotel and some condos had been built—to poor management. Although high fees were paid to four accounting firms, there were no audited, or even CPA-reviewed, financial statements. The project had to pay $435,340 in Internal Revenue Service fines, court records show.

Large amounts of money flowed to Grano and Lampert and other general partners with no documentation. Travel and entertainment expenses, for instance, were $484,663 from 1987 through 1989. Some $85,000 was paid to Grano and Lampert in June, 1988, as reimbursement for T&E expenses. Some $82,000 was paid for private jet service to shuttle officers to and from Mt. Ascutney. "In the aggregate, taking into consideration the relatively small size and the financial condition of the resort, they were excessive," the report said.

When Mt. Ascutney, crushed by $30 million in losses, went bankrupt, the resort listed $65 million in debts to banks and local creditors. Grano and other general partners were personally liable for some of the resort's bank debt. Lampert declared bankruptcy shortly after the resort did. "All of the investors suffered," Lampert says. "I lost a very, very substantial amount of money."

In June, 1993, Mt. Ascutney was sold for just $1.1 million. The community of West Windsor was economically devastated, as property taxes rose 25% to compensate for the resort's delinquency, and real estate values fell by as much as 50%.

Among the creditors were Kneeland and Shirley Brown, both 78. They sold a hayfield to the resort for $90,000. But instead of receiving cash, Grano's group gave them a mortgage, which was to pay them principal and interest for several years. The mortgage payments constituted most of the Browns' retirement income. But the Browns lost that income, and their land was among the assets sold at bankruptcy. They got just $15,000. "A lot of people were hurt by that business up here," says Shirley Brown.

Despite Grano's Mt. Ascutney losses, in 1991 he lent money to Cripple Creek Associates, which owned two casinos in Cripple Creek, Colo. The owners included Robert W. Pangia, a PaineWebber executive who was just promoted to vice-chairman. In 1992, both casinos closed, in part because of severe overbuilding of casinos in the town. Grano says he is optimistic because one casino has been leased and the other is being converted to a hotel. "Both of those casinos will be operating," says Grano. "The investment looks quite sound."

Grano's only successful partnership, in the mid-1980s, was Wall Street Stables, which raised, raced, and bred trotting horses. It was disbanded after some financial success several years ago. Grano's other horse venture did less well. In 1984, he and some partners bought a passive half-interest in two Maryland racetracks, Bowie and Laurel. That investment has been a financial disappointment, says Louis P. Guida, one of Grano's partners.

One survivor of the Mt. Ascutney affair is William H. Bruett Jr., former chief executive of Vermont-based Chittenden Bank, an early lender. Bruett resigned in 1990 as the bank faced large loan losses, according to *Vermont Business Magazine*. In 1991, Bruett was hired as CEO of PaineWebber Trust Co., and he is now a senior vice-president at the firm. Sources say Grano arranged the hire. Bruett and Grano deny that the hiring had anything to do with his bank's loan to the project.

Grano, who is not a skier, still has a condo at the resort. But he hasn't visited in a while. "I don't even want to think about it," he says.

By Leah Nathans Spiro in New York and Elizabeth Lesly in West Windsor, Vt.

Joe Grano's Not So Excellent Adventures

MID-1980s
Grano invests in Wall Street Stables to breed and race trotters.

AUGUST 1983
Grano and partners buy Mt. Ascutney ski area, then in bankruptcy, for $1.5 million.

FALL 1984
Grano and partners invest in two Maryland racetracks.

APRIL 1986
Mt. Ascutney files for Chapter 11.

1991
Grano gets $6 million loan from PaineWebber to help cover his investment losses and avoid bankruptcy. Grano's total losses: $9 million. More than $4 million in loans remain outstanding.

1991
Grano lends money to two Colorado casinos that quickly close.

JULY 1992
Accountant's report on Mt. Ascutney details mismanagement during the 1980s.

JUNE 1993
Mt. Ascutney is sold for $1.1 million, which is divided up between 721 Mt. Ascutney creditors who were owed $65 million.

DATA: BUSINESS WEEK, PAINEWEBBER

Investors in a ski resort took a fall

Racehorses earned him a handsome return

DERIVATIVES

THE $700 MILLION MYSTERY

Big brokerages may have propped up David Askin's funds

It was one of the biggest disasters in the history of Wall Street. David J. Askin's $700 million array of mortgage-backed derivative funds crumbled in March, 1994, dragging down an illustrious roster of investors and triggering a collapse in the market for collateralized mortgage obligations (CMOS). Askin's funds are long dead, but the legal morass continues to this day—and some crucial questions remain unanswered:

Did some of Wall Street's biggest brokerages—notably Kidder, Peabody & Co.—help Askin mislead investors? Did Kidder and other firms, such as Bear, Stearns & Co. and Donaldson, Lufkin & Jenrette Securities Corp., improperly force his demise? Do they share in the potentially enormous liability—investor losses that exceed $400 million? Did Bear Stearns deliberately destroy tape recordings of trading-desk conversations, in defiance of a court order?

The answers to those questions are becoming clear—and troublesome. Documents and internal brokerage tape-recording transcripts, made public in Askin-related court proceedings and examined by BUSINESS WEEK, seem to support the contention that Street firms enjoyed a symbiotic relationship with Askin, helping him inflate returns to investors when mortgages turned sour early in 1994. The alleged quid pro quo was that Askin was a leading buyer of the Street's "nuclear waste"—the junkiest grades of mortgage-backed derivatives—benefiting the firms and their salespeople, who would get much higher commissions than on ordinary bonds. But when the CMO market fell precipitously in March, 1994, the brokerages were no longer Askin supporters. They moved hard and fast—and shut him down.

COZY. Such accusations, made by creditor lawyers in court filings in the Chapter 11 bankruptcy of the Askin funds, are vigorously denied by Kidder, now a unit of PaineWebber Inc., as well as by Bear Stearns, DLJ, and Askin's lawyer, Andrew J. Levander. "The notion of a conspiracy or collusive arrangement with Askin is ludicrous," sniffs Kidder General Counsel John Lifton.

Still, the documents leave little doubt that Askin had a close relationship with Kidder, the former mortgage-securities powerhouse Kidder commonly sold, swapped, or engaged in repo transactions in which Askin received entire series, or "tranches," of low-grade mortgage-backed derivatives. At its peak, the Askin portfolios owned some $2.2 billion in CMOs. Kidder's top salesman went so far as to confide his firm was "in bed" with Askin (box). The comment, made in a taped conversation, was one of a series of recordings obtained by a court-appointed trustee, Harrison J. Goldin, who is investigating the Askin funds. Excerpts from the tape transcripts were recently placed in the court record by Edward J. Weisfelner, a lawyer for Askin-fund investors who last month obtained court approval for his own probe.

Levander maintains Askin's principal policies were perfectly proper, and that he might still be in business if brokerages hadn't seized his portfolios when he couldn't meet margin calls. Brokerage executives say Askin failed to hedge, became too bullish, and was creamed by a merciless CMO market.

It was an unlikely end for the soft-spoken, egotistical Askin. When he took over the Granite hedge funds in 1990, he al-

THE ASKIN TAPES:

Do They Show Chicanery?

The following conversations were excerpted from court-filed tape transcripts by BUSINESS WEEK. William O'Connor was Kidder's chief salesman and Jay Pappas was his assistant. The first conversation was on Mar. 25, 1994, the eve of the Askin funds' collapse. Creditor lawyers say, and Kidder denies, that the O'Connor-Pappas conversation illustrates the symbiotic relationship between Kidder and Askin and that Kidder conspired with Askin to report inflated returns to investors.

PAPPAS: Just pull the plug on these guys if they don't pay.

O'CONNOR: You don't seem to understand. We can't pull the plug. We are in bed with these guys. O.K. Last thing in the world we want to hear is that they can't meet a margin call and we got to liquidate this nuclear waste they bought.

PAPPAS: A lot of it's nuc waste?

O'CONNOR: It's all nucle come on.... What do y these are. We get paid Nuclear waste.

PAPPAS:...You got a poi half, two points on son

O'CONNOR: Yes.

PAPPAS: Do you know th you sold them?

O'CONNOR: Of course I c

y was a highly regarded CMO expert cut his teeth at Drexel Burnham ıbert Inc. Granite at the time was ed by Whitehead/Sterling Advisors, hite-shoe money management firm led by biomedical magnate Edwin tehead. Granite was sold to Askin r Whitehead's death, and various tehead-related charities, and the tehead estate, became investors in—now bankruptcy-court creditors of—Askin funds.

IRD STUFF." Court documents shed a light on the investor rolls and in-ıal workings of the Askin funds, ch were private hedge funds that ally kept their operations and in-or lists a close secret. Among the stors in Askin funds were Nicholas Nicholas Jr., former president and hief executive officer of Time Warn-Inc. Nicholas sank $500,000 into in's Granite Partners at an inoppor-e time—Jan. 1, 1994, three months ore the fund collapsed. Another for-Nicholas colleague at Time Warner appears on the list of hapless Askin stors: James L. Gray, former presi-t of Warner Cable Communications Playboy Enterprises Chief Financial cer David I. Chemerow was an in investor, as was a partnership ded by Isidore Pines, chairman of ional Foods, the Hebrew National ner food magnate. A handful of mon-nanagers and other hedge funds also caught in the Askin bankruptcy, no-y fund-of-funds manager Collins As-ates. Minnesota Power & Light in-ted and lost $10.8 million, and the 3M Employee Retirement Income Plan lost $20 million.

All told, investors are believed to have lost over $400 million in the Askin collapse. Kidder, by contrast, claims a loss of $17 million. Kidder and the oth-r brokerages have had a much higher file in the bankruptcy than the in-tors—much of it spent fighting efforts Goldin, and by attorneys for the in-tors, to obtain information about their with Askin. Goldin notes that the brokers were slow to respond to requests for information, often provided "unhelpful or unreadable" records, and at one point cooperated only after Goldin threatened to sue. The firms maintain they have fully cooperated with the inquiry.

SET UP? *Askin missed margin calls*

The result was a mountain of tapes and documentation, only a fraction of which has been made public. What has come into the public domain so far paints Askin as both victim and perpetrator. In the tapes, brokerage-house salesmen refer to the low-grade tranches sold to Askin disparagingly—as "nuclear waste" and "weird stuff" that sometimes was too complex to be hedged. According to a court ruling in one Askin-related lawsuit, Kidder was so vigorous in its sale of the "nuclear waste" that it allegedly told Askin that certain securities were bearish—that is, they would rise when interest rates rose—when they were far more complex than that. The claim was made at a time in early 1994 when Askin was trying to hedge his portfolio, which was heavily bullish as bonds tanked.

Tape transcripts, only recently made public, present a troubling picture of the Askin-Kidder *pas de deux*. While their meaning is far from crystal clear, they can be interpreted as indicating Kidder provided misleadingly high "marks"—marks to market, or prices—for the funds, thereby artificially boosting their investment returns. When the brokerages needed to price the securities kept as collateral for unpaid margin debt, the tapes support the view that the firms exchanged bogus prices.

Will this dour view of the tapes, and the court record, be borne out? Much depends on Goldin's report, which he expects to release early in 1996—delayed, he says, by brokers' slowness to cooperate. Goldin has been criticized by Weisfelner and his clients for not pressing hard enough on the brokerages' dealings with Askin, and he seems intent on demonstrating his independence. Goldin, a workout specialist and former New York City comptroller, says he is taking a sharp look at possible "actionable conduct" and he expects that there are likely to be "viable claims" pursued—perhaps against the brokerages.

At the top of the agenda of both Goldin and Weisfelner is the destruction of Bear Stearns's trading-desk tape recordings after a court order to preserve them. According to an affidavit recently filed with the court by Bear Stearns, the tapes were recorded-over by a junior employee unaware of the court order. Bear says that was in August, 1994—four months after the order was issued—while the responsible Bear Stearns official was on vacation. No one heard the original tapes "to the best of Bear Stearns's knowledge," says the affidavit.

Even without tapes from Bear Stearns, the evidence that already has come to light hardly casts a favorable light on Wall Street's dealings with Askin. Goldin says he will move to make public the final report of his investigation, in contrast to a preliminary Goldin report that was placed under court seal. Unless it is a ringing victory for the brokers, which hardly seems likely, Goldin's report will doubtless encourage an army of lawyers to descend on the only available deep pockets—the brokerages. For Wall Street, which made him and then smashed him to smithereens, it is a fitting epitaph to the legacy of David J. Askin.

By Gary Weiss in New York

the conversation)

hat do you think, you a break on the marks es of the securities to investors in the ıds]?

: We marked the bonds s we can stand and then f another 10% or 12%.

wing exchange was 31, 1994, as the funds collapsed. Richard John was Askin's top trader. Creditor lawyers say, and Kidder denies, that it shows Kidder collaborated with other brokers to get phony prices for Askin holdings it had seized to meet margin calls.

O'CONNOR: Whatever has to be done, let's get it over with today, and then let the lawyers come in and solve it all, but unfortunately you're right. For the time being it's like in a death bath with Wall Street saying, "We are going to liquidate you if you don't send money" and you say, "I'm not going to send you money, but who are you going to sell it to?"

JOHN: ...Make sure you get three bids so you're documented, pal.

O'CONNOR: Exactly.

JOHN: Tell me what the highest one is.

O'CONNOR: Everybody is faxing us over their sheets, you know, "Please just put a number next to all these bonds."

JOHN: Right.

O'CONNOR: I think everybody is calling the other guy, going "if you do mine I'll do yours."

JOHN: Right, right.

DATA: COURT RECORDS

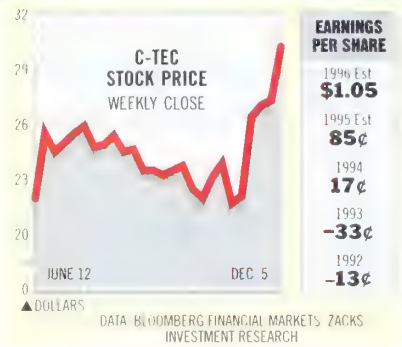
BY GENE G. MARCIAL

POISED FOR A TELECOM SELL-OFF

Once known as Commonwealth Telephone—a tiny Pennsylvania carrier—C-TEC (CTEX) is now one hot property: Since branching out into cable television and long distance, it has attracted sophisticated investors. Shares have zipped from 21 in early November to 30. And the climb is far from over, some say.

The reason: Some big telecom and media outfits have expressed interest in buying C-TEC's Cable System unit

BUYERS HAVE C-TEC'S NUMBER



DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

as well as Commonwealth Telephone—now a C-TEC subsidiary.

In cable TV, C-TEC has 300,000 subscribers in Michigan, New Jersey, and New York. It also holds a 40% stake in a Mexican cable company. Commonwealth serves more than 240,000 regular phone lines in Pennsylvania and resells service to other states, as well—and provides long-distance phone service to 100,000 residential and 14,000 business customers.

"The company is well into the process of selling its cable operations and has initiated sale of the telephone business," says Brian Warner of Performance Capital, a New York hedge fund that is accumulating shares.

Based on the private-market value of its assets, C-TEC is worth $45 to $48 a share, figures Warner. The company has hired Merrill Lynch to evaluate ways to boost shareholder value.

The move to sell off its assets—rather than acquire other companies for fatter revenues—evidently carries the blessing of C-TEC's big shareholders, including Peter Kiewit Sons, which owns 40% of the stock; value investor Mario Gabelli, with 23%; and Sequoia Fund, with 9%.

One analyst suspects that TCI, Nynex, or Comcast, a company that has worldwide interests in cable television, telecommunications, and TV programming, will end up buying all or part of C-TEC's assets.

"Management is a shareholder-driven group—they're looking to maximize the stock's value," says Warner. He notes, for instance, that 38-year-old CEO David McCourt has bought stock worth $35 million at an average of 27½ a share. Therefore, "McCourt is motivated to look after stockholders' interests," argues Warner. C-TEC is expected to have sales of $314 million in 1995 and $362 million next year, estimates analyst Bruce Roberts of Ladenburg Thalmann.

BASS TAKES A SHINE TO LONE STAR

Oil-patch giants such as Schlumberger, Halliburton, and Rowan have attracted interest lately, which has pushed up their stock. But a small rival, Lone Star Technologies (LSST), has been in a slump. Shares fell from 9¼ to 7⅞ in two weeks, after hitting 10¼ in September. Smart investors aren't turned off. They're buying in.

One big buyer is Texas financier Robert Bass, whose group raised its Lone Star stake from 22% in March to 27% as of Nov. 1—purchasing shares at prices ranging from 7 to more than 9. Lone Star makes oil-field and industrial gear. What's Bass up to? So far, it's not quite clear: In its Securities & Exchange Commission filing, the group said it would be a "passive" investor. But a Lone Star spokesperson says there is no standstill agreement between Bass and the company. "Our relationship with the Basses is very cordial," she says. Another big buyer of Lone Star says of Bass: "He makes mistakes—but not in oil or in his own backyard."

What's so enticing about Lone Star? Even at the depths of the oil-and-gas-drilling cycle, "Lone Star managed to stage what appears to be a turnaround, and it has started to make money this year," says a New York money manager who invests not only in energy but also in industrial-diamond producers. He notes that demand for diamonds among oil operators—for drill bits—has perked up, meaning that an oil revival may be imminent.

One analyst expects Lone Star earnings of 40¢ to 50¢ a share this year and 60¢ to 70¢ next year, compared with a 19¢ loss in 1994.

A BREAKTHROUGH FOR DIABETICS

MiniMed (MNMD) is a minicap stock trading below its July initial public offering price of 13. But analyst Sa Navarro of UBS Securities thinks MiMed will be a home run: "Its implantable insulin pump, plus the sensor is developing to monitor blood gluco will open up a huge world market," says. Navarro insists the stock w double from its current 11 within year. In two years, he says, MiniM "will most likely be acquired by a lar medical-equipment company, such Medtronics."

What's more, he argues, "nobo else has an implantable pump for i sulin, so MiniMed will be in high d mand." MiniMed will seek Food Drug Administration approval ne year. The pump, inserted beneath t skin of the abdomen, administers dose set by the diabetic.

MiniMed CEO Al Mann says clinic studies show that dosage through pump, as opposed to injections, reduces long-term diabetes complications: nerve damage, kidney disease, or blindness. The implant holds a three-month insulin supply. MiniMed's sensor lets diabetics read glucose levels without drawing blood. The sensor has an alarm to warn patients of dangerous glucose levels. Mann says the pump is no sold only in France, where he expect sales of $4 million next year.

AN INSULIN PUMP TO THE RESCUE

DATA: BLOOMBERG FINANCIAL MARKET

To market the device, Mann aim for a European alliance. "We are hold ing all sorts of talks, including merge possibilities," says Mann—but he didn elaborate. MiniMed already has a lin with Germany's Hoechst, which is mak ing fast-acting insulin for pump use.

Navarro sees MiniMed selling 7,50 pumps in 1995, and 8,500 to 9,000 i 1996. He figures MiniMed will earn 26 a share this year and 35¢ next.

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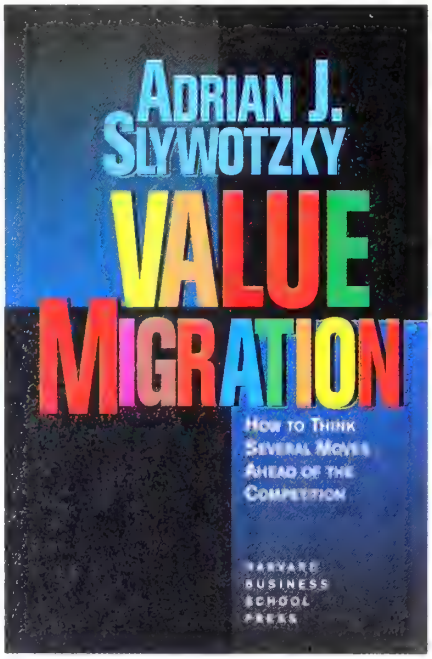

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SOFTWARE

NEW! IMPROVED! NOT HERE YET!

Long delays in getting new Mac operating systems to market are tarnishing Apple's crown jewel

On Nov. 17, more than 400 Apple Computer Inc. software engineers jammed into a company auditorium. After working into the wee hours and weekends for seven months, they were ready to ship the first version of a new Macintosh operating system called Copland. There were T-shirts for project "heroes," a Lettermanesque top-10 list in praise of Copland, and a beer bash. Says Ike Nassi, an Apple vice-president: "The place was wild. It was a very important milestone."

It was, however, perhaps a little soon to break out the beer kegs. While a group of 50 applications development companies are seeing an early version of the program now, Mac users aren't likely to get the new system until mid-1997. That's 18 months after it was initially due, and as a result Copland has blown its primary mission: to blunt the impact of Microsoft Corp.'s Windows 95.

If Apple loses its software edge, it could find itself in an accelerating slide: Without compelling new software, the company will be lucky to hold onto its customers, let alone expand market share. Already, formerly Mac-only software makers such as Adobe Systems are focusing as much on Windows as on Mac, and sales of Mac software are slowing even in traditional strongholds such as graphics and education (chart).

In the first three quarters of 1995, sales of Windows programs grew 47.4% from the year before while sales of Mac titles fell 12.9%, according to the Software Publishers Assn. That has developers thinking twice about the Mac. Says John R. Deal, CEO of Lizard Tech Inc., a Santa Fe (N. M.) graphics software company: "I'm an original Mac-head, but I can't afford to miss out on 80% of the market just because I hate Microsoft."

NEW TOOLS. So far, there's no clear signal that the Mac hardware business is suffering. In the September quarter, Mac shipments surged 9%, making it the top-selling brand. But Macs are moving so slowly in the critical pre-Christmas season that Apple has slashed prices up to 25%.

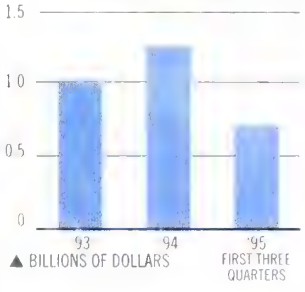
Apple executives insist that Copland has the stuff to put Apple back on top. They say they hope for delivery in 1996, but make no promises. "We've got an aggressive timetable, but we're going to make sure it works," says David S. Nagel, senior vice-president and chief technologist. But insiders say that despite new software tools and management controls, there's too much testing ahead to get Copland out in 1996. Says one recently departed Apple engineer: "There's no way in hell Copland ships next year. I just hope it ships in 1997."

Getting Copland out is up to Nagel. But developers worry that the longtime head of research and developme[illegible] too enamored with Apple techno[illegible] "The game is to cut it down to [illegible] three or four most compelling feat[illegible] as opposed to having hundreds of [illegible] to-haves," says one software execu[illegible] "I'm not sure that's happening."

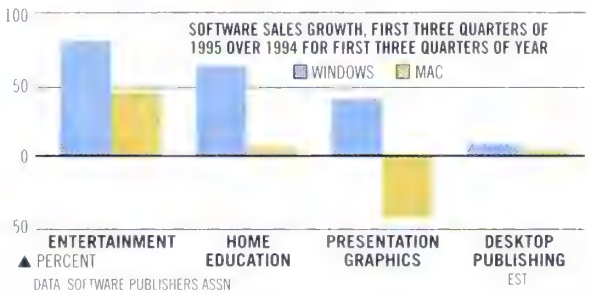
And Copland isn't the only pro[illegible] facing Apple's software-developme[illegible] forts. On the same day the Copland [illegible] velopers were celebrating, Apple h[illegible]

PUSHING: *R&D chief Nagel says, "We've got an aggressive timetabl[illegible]*

MAC SOFTWARE SALES HAVE BEEN SLIPPING...



...EVEN IN STRONGHOLD NICHES...



...BUT APPLE HAS A PLAN

COPLAND The first full re[illegible] the Macintosh operating sy[illegible] since 1984, Copland prom[illegible] durability of more powerful [illegible] grams such as Windows NT[illegible] as software agents and cus[illegible] able interfaces. Due out in [illegible] mid-1997.

OPENDOC This new archit[illegible] would replace today's bloat[illegible]

eida Labs, a 4-year-old joint venture
ı IBM that failed to bring forth a
guage for multimedia programming.
ıle also has halted development of
an, a programming language that
ıle programmers said might have
ı a rival to Sun Microsystems Inc.'s
te-hot Java, a World Wide Web pro-
nming language. Taligent, another
-Apple operating-system venture,
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verall, the software expertise that
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NTERNET Because Sun
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et bet.

CAN CYBERDOG FETCH INTERNET CUSTOMERS FOR APPLE?

It used to be that Apple Computer Inc. was the cool computer maker. The Macintosh was hip, nonconformist. Apple was on the cutting edge of the latest trend—ease of use, multimedia, laser printers. But in cyberspace, Apple is a laggard. While Netscape Communications and other companies grab the headlines, Apple has barely made it onto the Information Highway.

Now, the computer maker is finally revving up. Job one: Make the Mac the PC of choice for this explosive new market. The Mac has been a favorite "platform" for developing World Wide Web pages. Now, Apple is trying to make it the favored vehicle for Web surfers, too. Last summer, the company began offering a $59 Internet Connection kit complete with a Netscape browser, choice of Internet service providers, and the Claris E-Mailer, which is a program that consolidates a user's mail from different services. Apple says future PCs will include the Internet kit as standard equipment. On Dec. 4, Apple announced plans to support Java, the new Web programming language from Sun Microsystems Inc.

In January, Apple is expected to launch its most important Internet software effort—a programming system called Cyberdog that could make Net-surfing much easier. "Cyberdog is Apple's last, best chance to make an impact on the Internet," says John R. Deal, president of software maker Lizard Tech Inc. in Santa Fe, N. M.

What's so hot about Cyberdog? Based on the IBM-Apple OpenDoc software standard, which will let software modules work together as though part of one application, Cyberdog will let users easily add Internet links to their favorite applications. Want to get E-mail without quitting your word processor first? You could drop in a Cyberdog E-mail reader for one-touch access. Click on the button and check your mail, then resume work. Want to get a daily weather report? Drag in a part that calls into the National Weather Service Web site each morning. These software modules don't exist yet. Apple will release Cyberdog and key parts—a Web browser, an E-mail program, and others—in January. But by licensing the software for a nominal fee, Apple hopes developers and individuals will build their own custom modules.

Apple is also trying to beat rivals by providing content for the Internet. The goal: Operate like a cable-TV company and make money on Web sites by attracting advertising and charging for premium "programming." The company already has a site called The Learning Community for grade school teachers and in November launched one for the literati called The Salon. A four-month-old Internet Services division will convert the money-losing e-World online system to the Web next summer.

Attracting attention—and keeping cybernauts interested—is a daunting task. Some visitors to The Salon, for example, found discussions there too shallow. "The key will be the quality of the content, but Apple's heading in the right direction," says Tim Bajarin of market researcher Creative Strategies Inc. Following the right course is one thing. Getting there on time is another.

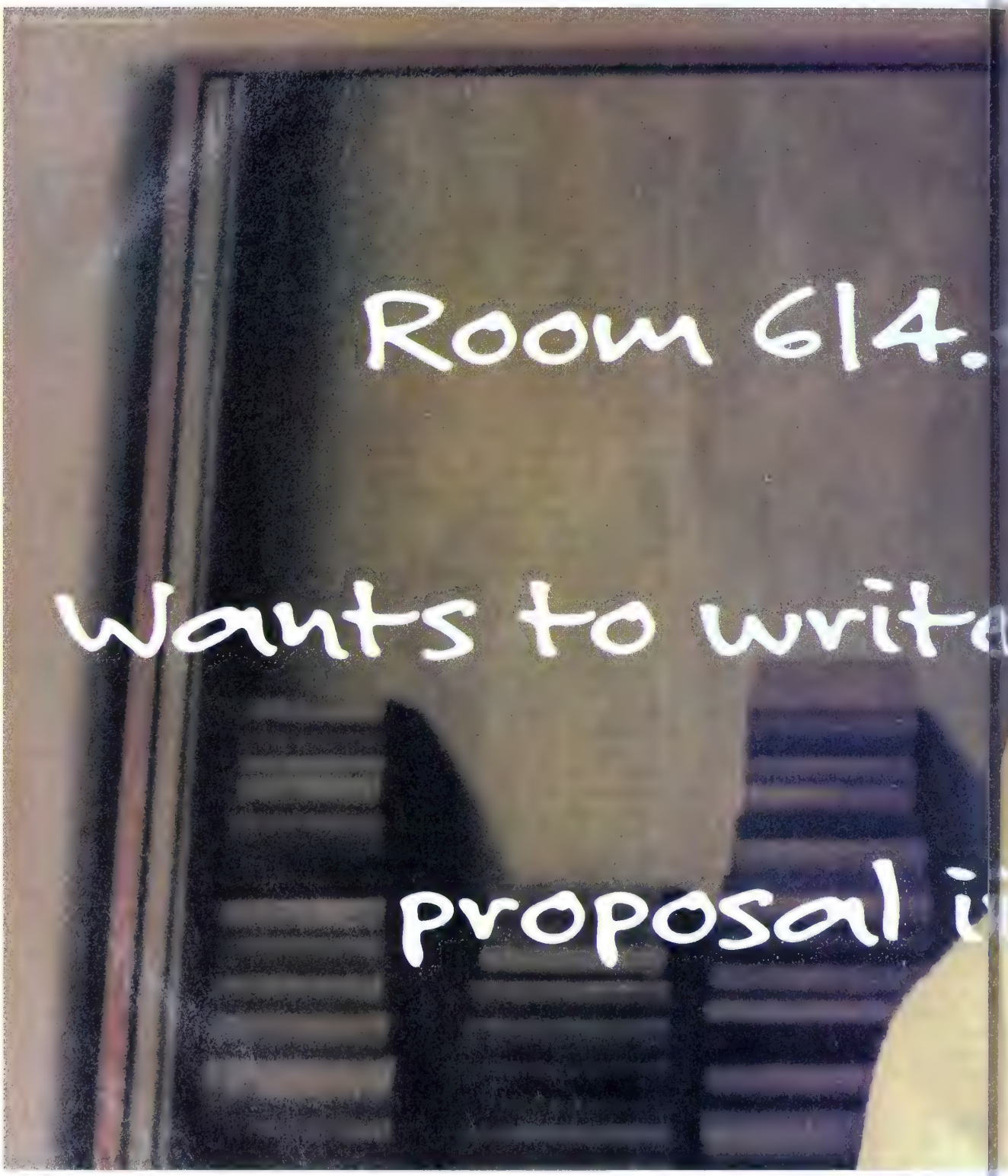
Peter Burrows in Cupertino, Calif.

APPLE'S I-WAY ITINERARY

CYBERDOG Set for release early next year, this software lets users set up their own custom-made Internet interfaces. Rather than jump between browsers and gophers, customers could, for example, plop an icon for Internet mail into their word-processing programs.

CONTENT Apple is rolling out Web pages targeted at specific Mac customers such as The Learning Community for teachers and The Salon for intellectuals.

NET SERVERS Since many Web-publishers create their content on Macs, many want to house their Web sites on Mac servers. This has helped Apple vault to No. 2 in this fast-growing market, according to market researchers Gartner Group.



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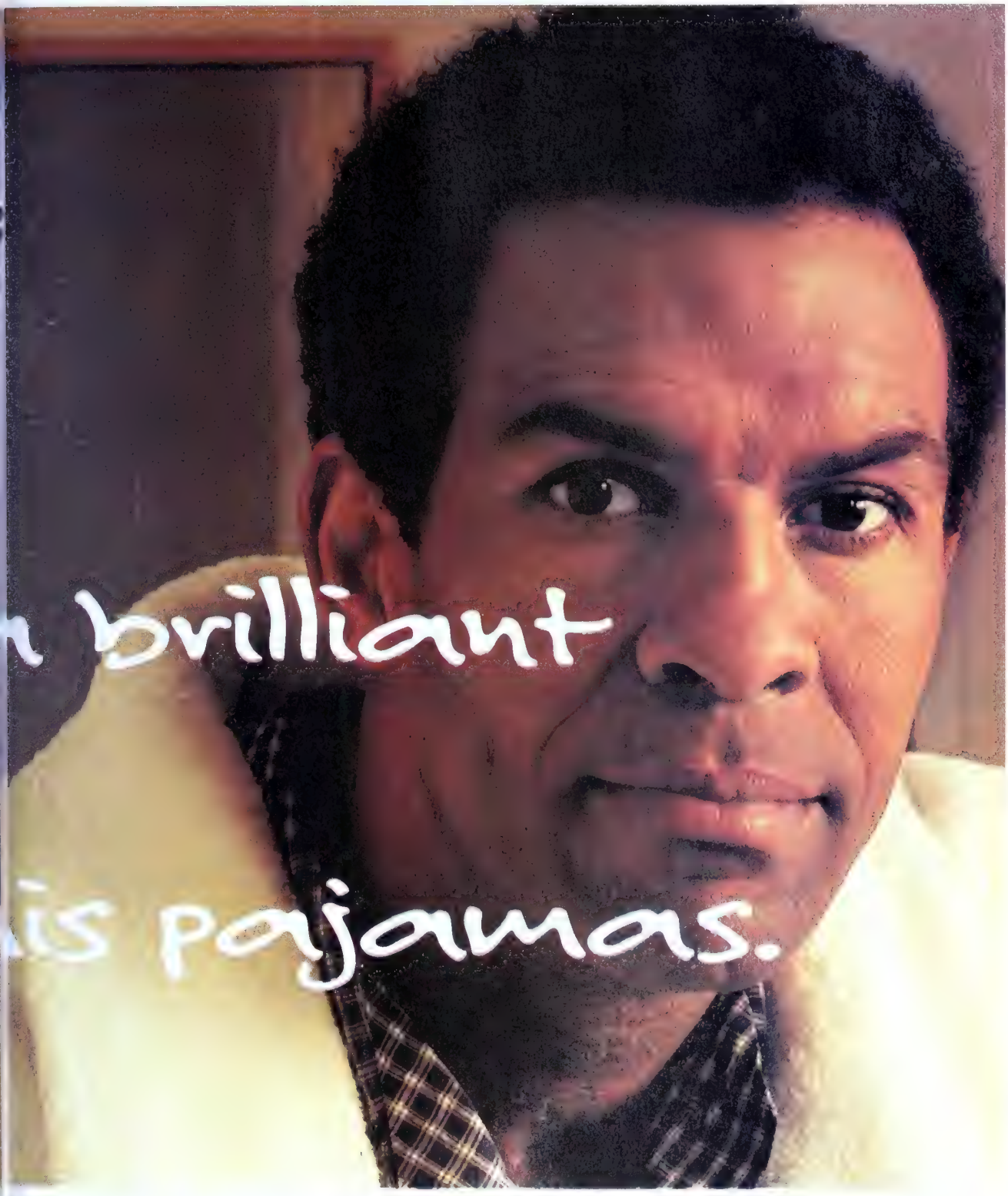

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year ago, Oracle CEO Lawrence J. [illegible] son mulled a bid for the No. 2 PC [illegible] er—just to get the user-friendly [illegible] operating system and other softw[illegible] goodies. Now he says he's not inte[illegible] ed. "We think there is another av[illegible] for us—a better way to get there."

Can Apple turn things around [illegible] new effort to develop programming [illegible] the Web will be critical. So will a [illegible] cessful Copland. The first total rev[illegible] of the Mac OS since 1984, it will [illegible] Apple up to speed with newer opera[illegible] systems such as Windows NT and [illegible] OS/2 that are better suited for corp[illegible] tions. For example, "preemptive" m[illegible] tasking will reduce system crashes [illegible] running more than one program. [illegible] land also has "agents" to carry out [illegible] tine tasks, such as printing out [illegible] E-mail at 8 a.m. every day. A [illegible] powerful "finder" will help let user[illegible] trieve documents by searching for [illegible] words or phrases rather than file na[illegible] And, with Copland, the Mac inter[illegible] can be customized—a simple screen [illegible] kids or lots of icons for power user[illegible]

CONCENTRATION. Apple executives [illegible] out that Copland's "modular" arche[illegible] ture will also give the company a [illegible] to bring new features to market fa[illegible] Instead of periodic, massive updat[illegible] the entire operating system, it wi[illegible] possible to rewrite pieces of code [illegible] improve file management, say. That [illegible] help Mac applications developers [illegible] their hands on new capabilities soo[illegible]

There are other new software in[illegible] tives. OpenDoc would let develo[illegible] plug small applets into other app[illegible] tions. QuickTime, Apple's multim[illegible] video technology, is a popular wa[illegible] post "movies" on the Web. And, N[illegible] says, Apple also has strength in [illegible] computing. "You have to look at [illegible] totality of what we're doing, and [illegible] can still do things the other guy [illegible] crosoft] can't."

Business partners and Wall St[illegible] are glad Apple's software operatio[illegible] concentrating on these efforts and [illegible] land. "Apple's been trying to do [illegible] many things, and anything that foc[illegible] their attention is good," says Robe[illegible] Lee, CEO of Insignia Solutions [illegible] which makes a program that lets [illegible] users run Windows applications.

Still, Apple has become a hard [illegible] After months of wooing, ID Softw[illegible] agreed to do a Mac version of its in[illegible] galactic game, *Doom*. But, says ID [illegible] Jay M. Wilbur, he'll still do new [illegible] dows versions ahead of Mac relea[illegible] "Apple's gone out of their way to [illegible] us, but we've just got our hands [illegible] with our mainstream stuff," he s[illegible] When that attitude changes, Apple [illegible] really have reason to celebrate.

Peter Burrows in Cupertino, C[illegible]

COMMENTARY

By Catherine Arnst

POWER TO THE STATES? IT WON'T WORK IN TELECOM

n the the Republican-dominated Congress, deregulation and devolution go hand in hand. Scaling ack regulatory agencies and shifting esponsibility back to the states are eactions to a federal bureaucracy iat seems impervious to market reities and a Congress where special iterests write the laws.

Sounds like a perfect way to get ound the muddle of telecommunicaons deregulation—in one fell swoop, rcumvent the Federal Communicaons Commission and end the decadeng battle among industry groups iat has stymied attempts to rewrite)-year-old telecom law. Indeed, while /ashington has fiddled, 23 states ave started to deregulate local-callg monopolies. Many of these same ates have paved the way for comunications companies to bring out ew technologies. One example: When ell Atlantic Corp. applied for a linse to offer video over its phone nes in Toms River, N.J., it took the ate a few months to grant approv—and the FCC two years.

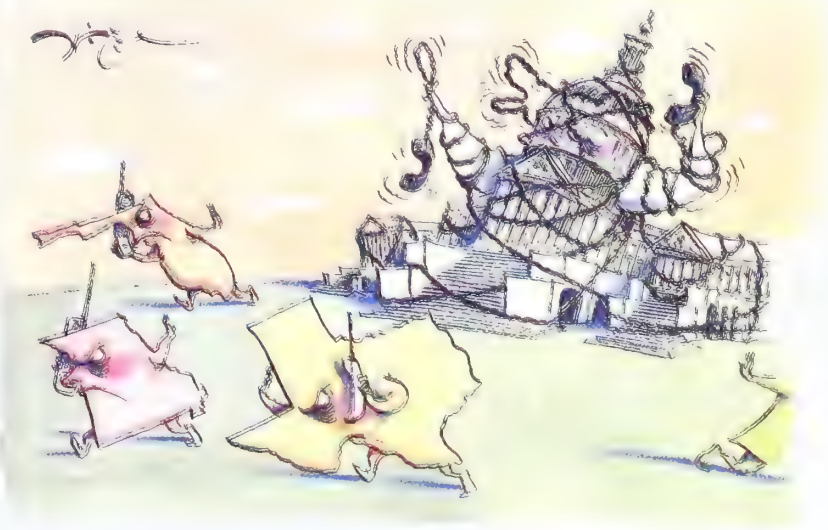
ELCOME RELIEF. But when it comes telecommunications, a state-byate solution is no solution at all. nd no less a devolutionist than ewt Gingrich says so. On Nov. 30, warned House and Senate confees to get cracking on a compromise easure so it can be ready for a te before Christmas. The speaker, Information Age enthusiast, recnizes that it could be disastrous to ice more postpone passage of a bill free the nation's local phone comnies, long-distance carriers, and ble-TV operators to compete with ie another.

Anyone who doesn't want to see e most advanced communications etwork in the world break down to a patchwork quilt of incompatle regulations should welcome a deral bill. "If Washington doesn't t its act together, the states will act—but it will be much more piecemeal and confusing," says Marion Boucher, telecommunications analyst with Bear Stearns & Co. That will further delay improvements in the telecom system that would benefit the economy and all Americans.

Worse, no state has the power to do the whole job. States can allow competition in local-calling markets. But they can't grant a basic form of regulatory relief: letting local phone companies into the oligopolistic long-distance business—which could vastly increase competition.

That's not to say that the federal solution in the works is an ideal one. In fact, telecom insiders say the final bill will be light on deregulation. The measure will likely run to well over 100 pages, replete with dozens of new rules outlining how the industry will deregulate. "This legislation changes telecom policy from a permanent monopoly regulatory model to a transitional regulatory model," says Scott Cleland, an analyst with the Washington Research Group. "Congress is seeking to introduce competition wherever possible, all the while preserving universal telephone service." That's a tall order, which may explain why Congress plans to punt most of the detail work to the FCC.

Leaving implementation to the FCC, industry executives fear, could slow the arrival of new competition and services. The agency will have to resolve such complex issues as the rates that local carriers may charge for reselling their services and the establishment of a new nationwide universal-service fund, as well as determining at what point each local phone company has successfully met a series of competitive tests before it may offer long distance.



/ithout federal oversight, the world's most dvanced telecom network would fall apart

Even the healthiest of agencies would be hard pressed to do all that, and these days, the FCC is not operating at its peak. It is hampered by bitter infighting among its commissioners, and it faces a 20% budget reduction.

Still, while the pending telecom bill may be far from perfect, it is the best chance we have to let loose a set of industries that pull in some $1 trillion in revenue each year—one-sixth of the U.S. economy. It's time to set them free.

Arnst covers telecommunications for BUSINESS WEEK.

MCHAEL WITTE

VACANCY As the Pirates' or field fortunes faded in '95, the park was often nearly this empty even on game day

NEWCOMERS

ANGELS IN THE OUTFIELD

How Kevin McClatchy kept the Pirates in Pittsburgh

You'd think it was Mudville on the Monongahela. As the Pittsburgh Pirates tumbled deeper into the cellar, fans deserted. By September, cavernous Three Rivers Stadium was so empty you could hear the umpires shout and the players swear.

The corporate owners, who had saved the team for the city a decade earlier, grumbled about losses and looked to sell. But talk about onerous conditions: They wanted $85 million and a pledge from any new owner to keep the team in small, baseball-weary Pittsburgh. A few would-be buyers trooped to town but came up short on financing. Baseball's future in Pittsburgh looked grim.

Enter Kevin McClatchy, a 32-year-old newspaper heir and sports fan from Sacramento, Calif. Fifteen years earlier, he had spent Thanksgiving in Pittsburgh with his prep school roommate, Dan Rooney Jr., whose family owned the Steelers football team. Now, on his first return visit, McClatchy brought $10 million—half his fortune—and the Rooney connection. From that slim start, he had to build a team of investors to back a bid for the Pirates. The owners—including such Pittsburgh corporate giants as USX Corp. and Aluminum Co. of America—weren't impressed. They gave him two weeks.

In 14 hectic days, McClatchy saved major-league ball in Pittsburgh. Racing around town, selling his vision for baseball to the city's monied class, he put together $85 million. By Thanksgiving, he was back in Sacramento to sell his house. A final O.K. of his bid from Major League Baseball comes in January.

NEW PARK? When McClatchy hit town, he needed political support fast. So after he finished checking into his hotel, he crossed Grant Street to see Mayor Tom Murphy. For the mayor, McClatchy was the last chance to hang on to the 109-year-old franchise and avoid being known as the mayor who lost the Pirates. McClatchy, in turn, needed help from City Hall. "For the Pirates to be financially viable," he says, "you have to have a new stad like Cleveland's or timore's," with hund of lucrative corpo skyboxes.

When the stocky, foot-tall McCla started negotia Pittsburghers had son to doubt his giance to the Steel A year earlier, he a bid for the Oak A's, partly becaus suspicion that planned to move the team to Sacra to. But in a 48-hour marathon ses McClatchy convinced Murphy tha planned to stay put. Murphy pron McClatchy $9 million in concessio Three Rivers Stadium and comm the debt-ridden city to a new stadi

Working from a spare office in a law firm, McClatchy started cour investors. He began with his ho Reed, Smith, Shaw, & McClay—w he coaxed into kicking in $1 mil With help from the Rooneys, he la Miami Dolphins quarterback Dan rino, a Pitt alumnus, for a million. Ganassi, who owns a car-racing t signed up for twice that. McClatchy suaded Integra Bank to finance u $45 million, and he managed to ent number of current owners, inclu Westinghouse Electric, Mellon, and banks, to keep their stakes. "He see like a young man who was in earn says investor Eugene Litman, wh agreed to keep his $1 million stake

Even with such support, McCla was short of pledges as the dea approached. His big hope was to H. J. Heinz Co. Chairman Anthony O'Reilly. A month earlier, durin weekend at O'Reilly's castle in Ire Murphy had given his host an e about the importance of baseba Pittsburgh. But O'Reilly appeared moved. "After 20-some years in United States, I still don't unders what a double play is," he declare

McClatchy, however, had a sp connection. O'Reilly, who owns se newspapers, knew McClatchy's fa C. K., and recalled a warm convers

him in 1989, just days before the
sher died of a heart attack. "He
mmensely charming," O'Reilly re-
"And when his son came... Well,
s don't fall far from the tree."
lly pitched in $4 million from Heinz
$1 million of his own. Others fol-
l, and McClatchy had his $85 mil-
efore the time ran out. The next
ie and Murphy were posing happi-
xt to a statue of Roberto Clem-
and the mayor was calling the
Californian "a Pittsburgh hero."
ning a big-league team fulfills a
McClatchy has had since his days
inity-Pawling School in Pawling,
where he played wide receiver
aught passes from Rooney. He
on to the University of California
nta Barbara, where he majored in
al science and played defensive
He could have gone straight into
mily business, which includes the
mento, Fresno, and Modesto *Bees*.
d, he worked elsewhere, in news-
s, advertising, and TV. "It was im-
nt to get away to gauge my true
rmance," he says. After his father
he joined the ad staff of the *Sacra-*
Bee. But he kept thinking sports.
year, he bought a single-A minor-
e team in Modesto and applied for
le-A team for Sacramento.

EARS. Now, he stands to be the
est owner in the majors—younger
several Pirate players. But he has
time to celebrate. He got the Pi-
cheap for a reason: The club lost
illion last year. And Pittsburgh is
rt a football town, even when the
es are winning. Current owners
hey could have fetched twice the
by selling the team out of town.
McClatchy intends to follow
land's successful model, centered
od farm teams and the prospect of
v park, he has far to go: Unlike
land, there's little sign of a slugger
dbert Belle or a gazelle like Kenny
n in Pittsburgh's pipeline.

t don't cry for Kevin McClatchy.
eal includes an escape clause that
s him to move the Pirates if he
$15 million in three years and fi-
ng for the new stadium is not in
Right now, though, McClatchy in-
hat relocating is the furthest thing
his mind. Already, he's planning
y promotions, hoping to lift at-
nce from last year's 900,000 to 1.4
n. And he's searching the free-
market for a power hitter. He's so
with baseball, he isn't even sure
he has rented a house. "I think,"
ays, "it's some place called
... Breeze?" To Pittsburgh's belea-
d fans, that uncertainty suggests
mer who has his priorities straight.

By Stephen Baker in Pittsburgh

CADILLAC GENERAL MANAGER GRETTENBERGER WITH THE CATERA

STRATEGIES

A CADDY THAT'S NOT FOR DADDY

Cadillac's future rides on younger buyers buying the Catera

In the luxury-car business, where success hinges on luring affluent younger buyers, General Motors Corp.'s Cadillac Motor Car Div. is something of an industry joke. After all, with the average age of buyers of some models nearing 70, repeat business looks dicey. "Cadillac dealers often joke that instead of a first-time-buyer program, we need a last-time-buyer program," says Christopher J. MacConnell, president of Thomson-MacConnell Cadillac in Cincinnati.

GM, however, isn't amused. The dearth of younger buyers means big problems for Cadillac, GM's smallest division. Although rivals such as Lexus, BMW, and Infiniti have seen sales accelerate since the late 1980s as they've grabbed a bigger piece of the $45 billion luxury-car market, Cadillac is stalling out. Since peaking at 351,000 cars in 1978, Cadillac sales have been sliding steadily. This year, they plummeted 15%. With expected sales of just 175,000 cars in 1995, Cadillac's share of the roughly 1.2 million-unit luxury market is now 15%, down from 24% in 1989.

To reverse its tailspin, Cadillac is betting on the Catera, a new entry-level luxury sedan it will unveil in early January. Industry sources say it's a make-or-break car: If the Catera draws the baby-boomer buyers who now flock to Cadillac's German and Japanese rivals, the American nameplate's luster will be restored. But if it doesn't, Cadillac's future looks bleak. "Unless they dramatically change their image and their product line, they're going to continue their decline," warns Christopher W. Cedergren, senior vice-president of consultant AutoPacific Group Inc. in Santa Ana, Calif. "This is their last shot."

MARKET SWING. That's because the Catera is aimed straight at the fastest-growing slice of the market: entry-level luxury cars such as the BMW 3-series, Mercedes C-class, and Lexus ES 300. Typically bought by aging boomers, they

Cadillac is considering Saturn-style no-haggle pricing

range from $28,000 to $35,000. Just 25% of the market in 1991, such models account for 39% of all luxury cars today and are expected to command nearly 50% by decade's end. Until now, that trend has spelled demographic doom for Cadillac. The company, which still gets most of its sales from the boxy Deville, has had nothing to offer boomer buyers when they first trade up.

The Catera is meant to fill that gap. But coming late to a crowded market, Cadillac faces a big stretch. While the average Caddy buyer is 65, buyers of entry-level luxury cars average just 44 years old. Most are college-educated women, while Cadillac attracts overwhelmingly male, high-school-educated drivers. That's one reason rivals seem unfazed. Jim Press, U.S. sales head for Lexus, thinks the Catera is more likely to lure owners of other domestic cars: "I don't see this as a significant threat to Lexus." Concedes GM Chief Executive John F. Smith Jr.: "They've got a lot of work to do to make it happen."

After much internal discussion and delay, it was only when Smith took over North American operations in 1992 that GM decided Cadillac needed a new entry-level car aimed at import lovers. Smith asked the European engineers who had just designed the new top-of-the-line Omega for GM's Opel division to quickly turn out a Cadillac version on the same chassis. But the soaring mark has since made the strategy expensive. At current exchange rates, Cadillac executives admit they'll lose money on the German-built vehicle, which is expected to sell for around $33,000 when it hits showrooms next fall. Nevertheless, the resulting Euro-styling gives the Catera a tauter ride and more nimble handling than any Detroit-bred Cadillac. The Catera has drawn praise for its driving performance from auto-buff books, though most are lukewarm on its styling.

STRIKEOUTS. Cadillac's previous attempts to move away from its clunky luxo-barges offer little reason for optimism. Competitors eagerly recall what happened in the 1980s, when GM sold a gussied-up Chevrolet Cavalier compact sedan as a Cadillac Cimarron. "When Cadillac goes small, volume goes small," said George Borst, a Toyota Motor Corp. executive then running Lexus, last winter. And Cadillac's earlier attempt to win young sophisticates was another debacle. The division spent six years tinkering with the Allante, an underpowered, defect-plagued convertible selling for $54,000-plus, before GM pulled the plug in 1993. Cadillac General Manager John O. Grettenberger swears such mistakes won't reoccur: "Catera will be right for the market segment right out of the box."

Well, almost. Catera will be launched without side airbags, a new feature beloved by safety-conscious yuppies. By next fall, side airbags will be available on Volvos, Lexuses, and Lincolns, but Catera won't offer them until the following April. The Catera launch team also promises repeated inspections of the car in the U.S. and Germany to eliminate the quality snafus that damaged Allante's reputation. "The last thing I want is for you to get your new Catera and have a problem in the first week," says Catera brand manager Dave Nottoli. "That would be the kiss of death." But his efforts were hardly helped by GM's Dec. 1 announcement of a $45 million recall of 470,000 Cadillacs for violations of emissions standards.

Coming up with a better car is only half the battle. Caddy's biggest challenge may simply be persuading younger buyers to consider a Cadillac. "You don't want to drive your parents' car," says Pam Casey, 36, a San Mateo (Calif.) lawyer whose father and grandparents were Cadillac owners. "It's an in problem." Still, though she and her band own a BMW 325i and a Merc 300E, she'd consider a Cadillac if st and performance improved. "I'd them a look," she says.

To lure buyers such as Casey showrooms, Cadillac plans to invite port owners to test-drive a Catera spring and summer. Catera manager also working hard to whip Cadillac's independent dealers into shape. Insi concede they face big problems t too. Justly or not, many younger bu see Cadillac dealers as epitomizing old-line, hard-sell style, com with salesmen in white belts plaid sportcoats.

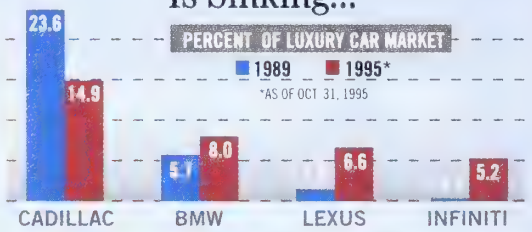
To meet the high standar younger customers, dealers want to sell the new car will to polish selling skills at Ca College. And GM will ship Cat only to dealers who meet standards for customer sati tion and service. Among the ta Cadillac is exploring: no-ha pricing in the style of GM's Sa division.

To support its marketing, C ra got the first of 35 new b teams GM is setting up. The b child of GM's new marketing Ronald L. Zarrella, these te will focus on marketing indiv models rather than entire divis such as Pontiac. So far, execs say only that Catera's ads wil for as much attention-gettin reverence as tradition-bound C lac managers and dealers can st "We've got to be in their faces," Dan Golles, Catera's product-plan manager, who acknowledges that the cess may take years. "We know we always get them on the first try."

Indeed, though industry observers the new car is a big improvement only a start. "The Catera will help only incrementally," says David Bra an analyst at J.P. Morgan Securities "If you need 10 steps to get there, t half a step." Cadillac's long-term aim establish Catera well enough so th next generation car, which will a early in the next century, can re the Deville as Cadillac's mainstay. if Catera doesn't win some younger ers quickly, Cadillac will by then b far behind to amount to much more the butt of industry jokes.

By Kathleen Kerwin in De

Cadillac's Market Share Is Sinking...



...And It Needs to Attract New Drivers

	AGE	WOMEN	COLLEGE GRADUATES
Cadillac's current customer profile	65	28%	45%
Average entry-luxury customer	44	53%	73%

DATA: *WARDS AUTOMOTIVE REPORTS*, COMPANY REPORTS

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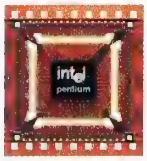

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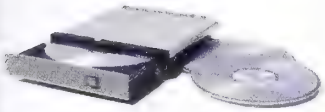

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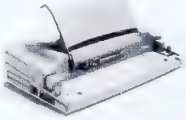

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ENERGY

CONGRATULATIONS—YOU STRUCK SAND

Now, the economics of oil-sand mining make it viable

When Edythe A. "Dee" Parkinson took over as executive vice-president in charge of Suncor Inc.'s sprawling Alberta oil-sands plant in 1991, many employees expected her to shut it down. High production costs had whittled pretax profit margins to less than $1.50 a barrel, even as an expensive expansion was needed. But the feisty Parkinson hadn't moved all the way from Ontario to northern Alberta—300 miles north of Edmonton—to give up on the world's first big oil-sands operation.

Instead, she introduced technology that slashed production costs by some 30%. That and a more profitable product mix have sent margins soaring to $7.50 a barrel this year, making oil sands more profitable for Suncor than conventional oil production. Emboldened, Parkinson is embarking on a high-tech expansion that could cost up to $600 million.

TOMORROW'S RESOURCE. It's just one example of a sudden surge of renewed interest in developing the world's largest lode of oil sands. Although Alberta's oil sands contain up to a third of the world's known petroleum resources, far more than in Venezuela and elsewhere, prohibitive costs until recently led most people to dismiss the black, tarry, hydrocarbon-bearing sands as tomorrow's energy resource. Indeed, much of the oil sands are still not worth mining. But advances in mining, transportation, and separation have slashed costs so that some 300 billion barrels of oil are considered economically recoverable, now or in the future. "That's changed the investment outlook 180 degrees," says Eric P. Newell, chairman of Syncrude Canada Ltd., a consortium that runs the world's largest oil-sands project a few miles away from Suncor.

The industry's major players—including Amoco Canada Petroleum Co. and Imperial Oil Ltd.—now plan to invest more than $2 billion in expansion over the next five years. If all these projects are completed, they would boost industry production 35%, to almost 550,000 barrels a day, or some 25% of Canada's total crude output. The industry's National Oil Sands Task Force recently predicted that up to $20 billion might be spent on oil sands over the next 25 years, making it the largest industrial development project in Canada.

The investment outlook got a big boost on Nov. 30, when Alberta Premier Ralph Klein unveiled cuts in royalties on oil extracted from lands leased from the province. Producers hope federal tax relief will follow. And if real oil prices rise to $25 a barrel, investment would increase even faster. "Syncrude would become a gold mine," says Gulf Canada Resources CEO J. P. Bryan.

The current revival is a sort of second coming for oil sands. After Suncor opened its plant in 1967, a consortium of big oil companies and the governments of Canada, Alberta, and Ontario built the even bigger Syncrude plant, w started operating in 1978. But mos pansion plans were shelved afte prices collapsed in 1986.

What has revived interest in fres vestment is cheaper production. S 1982, Syncrude—whose operation is than twice the size of Suncor's— slashed its production costs in hal around $11 a barrel. "By the turn o century, Syncrude will be producing stuff for $9 a barrel," predicts Br whose Gulf Canada is a consortium ner. That, he says, "is as competiti you need to be in North America."

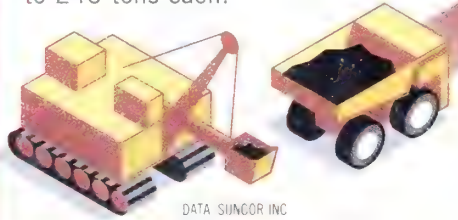
Production costs for conventiona vary widely. But in western Canada sand outfits already enjoy a highe turn on capital than regular oil pro tion operations. Indeed, Imperial which is Canada's largest oil com and 70% owned by Exxon Corp., devoted to oil sands that it has sto exploring for conventional oil. Oil s "are the future of this company," Howard B. Dingle, Imperial's ge manager in charge of them.

TWO TONS, ONE BARREL. Some of most important improvements to have come in open-pit mining, method used by Syncrude and Su that accounts for nearly two-thir all oil-sands production. The black which in summer emits an overpow asphalt-like stench, is dug up and t to a processing plant. There, bitume heavy, molasses-like oil—is separ from the sand and then upgraded various blends of crude oil (diagran takes about two tons of oil sand to duce just one barrel of oil.

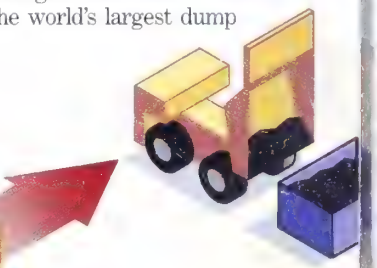
Traditionally, Syncrude and Su made piles of oil sands, picked the with a so-called bucketwheel recla and placed them on long conveyor for transport to the processing p But the reclaimers and belts often b down. So Suncor's Parkinson mothb most of them. Instead, oil sand straight from the shovels onto the world's largest dump

From Black Sand to Petroleum

Canada's Alberta province claims more oil than Saudi Arabia. But it's in oil sand—tar-like bitumen clinging to grains of sand. Here's how one company, Suncor, profitably recovers one barrel of oil from about two tons of sand:



DIG Mammoth shovels in a vast open-pit mine put chunks of foul-smelling oil sand into the world's largest dump trucks, carrying up to 240 tons each.



CRUSH The sand is trucked t crusher and then travels over or belts. In the future, Sunco mix the sand with water and

DATA SUNCOR INC

s. On-board computers tell ruck drivers where to go when, eliminating bottle-s. The trucks carry their directly to a machine that es lumps of oil sand. From the sand travels a shorter ace by conveyor belt to the . With easier maintenance, or has reduced its mine force by 39% and cut costs most $4, to $10.50 a barrel. ncrude trails Suncor in erting to dump trucks. But aking the lead in testing ier efficiency booster, "hy-ransport." This involves ig the crushed sand with water in a cyclo-feeder, a of giant toilet bowl. It's shipped via pipeline to the plant. Thanks to agitation e pipeline, the bitumen is ly separated by the time ives. Syncrude figures hy-ransport will cut the cost oving oil sand by as much a barrel and further re-downtime. Moreover, it ld let Syncrude collect s as far as 25 miles from lant, up from 6 miles now.

In western Canada, oil-sand outfits already enjoy a higher return on capital than regular oil operations. Imperial Oil has actually stopped exploring for conventional oil altogether

SUNCOR'S PLANT IN ALBERTA

here oil sands are buried too deep ake open-pit mining practical, pro-s such as Amoco and Imperial use in situ" method, which involves in-ig steam into the deposits. After bitumen separates from the sand a matter of weeks, it's pumped to urface along with water and a trace tural gas. The bitumen is then sep-d, diluted, and shipped via pipeline fineries. Imperial figures it must le 350,000 barrels of water, most of is recycled, for every 100,000 bar-of bitumen produced.

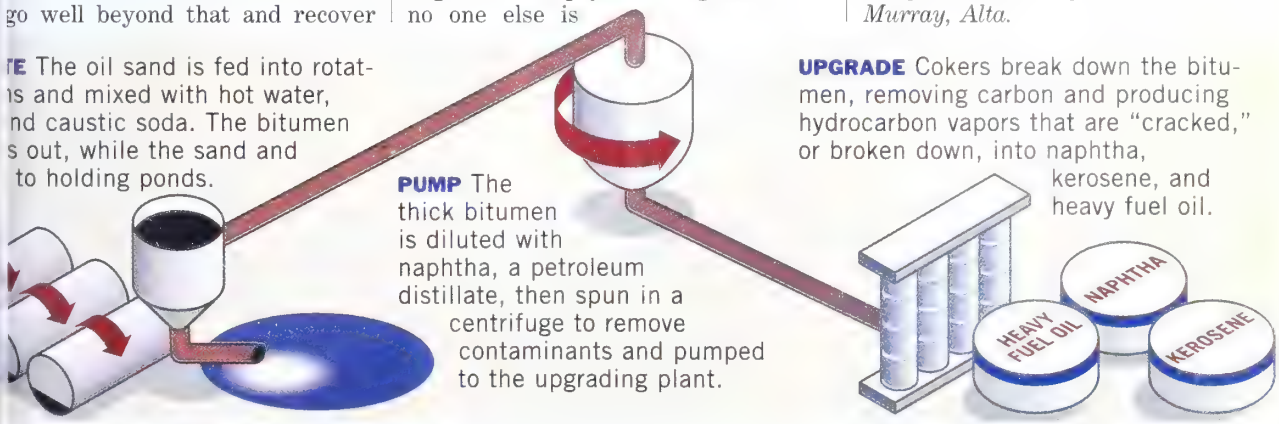
r this "huff and puff" production od, the key is to get the most bitu-for the least steam. Imperial says eologists have learned to position team-injection wells more efficient-osting its recovery rate to 25% of bitumen from 17%. Amoco thinks it go well beyond that and recover 50% of the bitumen with the help of horizontal drilling, which lets it drain a field more thoroughly using fewer wells.

Of course, even recovering half of the bitumen wouldn't come close to the performance of open-pit mines, which recover more than 90%. But then, mining with steam is far cheaper. Moreover, steam miners save money another way by not upgrading the bitumen. They simply dilute it and ship it via pipeline for refining in Canada or the U. S. The trade-off is that they can't charge as much because they deliver a lower-quality product.

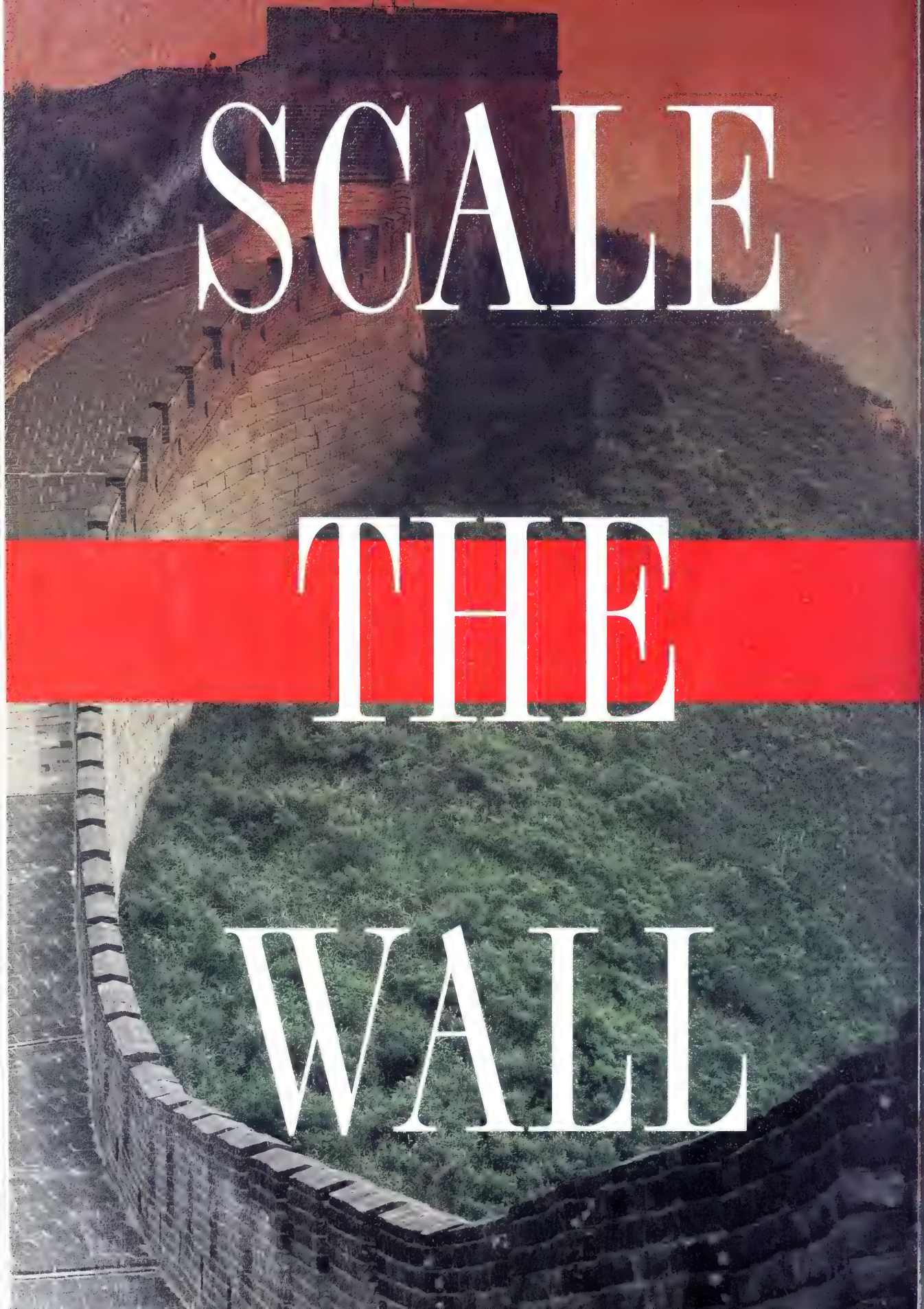
RISK-FREE EXPLORING. Suncor and Syncrude have proven that it's possible to make a profit from an integrated mining and upgrading operation. Indeed, they're planning more than $1 billion of expansions. But the investment required is so huge—and the payoff so long-term—that no one else is considering building an integrated operation from scratch. Rather, the industry is developing a "small is beautiful" vision. Donald V. Currie, managing director of the Alberta Chamber of Resources, sees a web of "unbundled" operations. One would mine the oil sands and separate the bitumen. Another would ship it by pipeline for refining by someone else.

Producing oil from sand is a lot tougher than just pumping it from the ground. But oil sands enjoy one big advantage: Everyone knows where they are. "Where else can you find a deposit where you don't have to worry about replacing reserves?" asks Gulf's Bryan. In the Alberta oil sands, he notes, "you have no exploration risk." As technological advances continue to lower costs, that argument should make the oil sands even more inviting.

By William C. Symonds in Fort McMurray, Alta.



SCALE THE WALL



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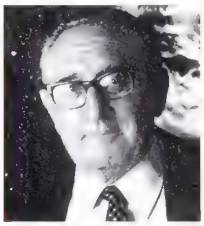

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EDITED BY PETER COY

VISIBLE WOMAN REVEALS ALL

HER NAME IS KNOWN ONLY TO A FEW, BUT A Maryland woman who died in 1993 at age 59 will win enduring fame on the Internet's World Wide Web. She's the Visible Woman from the National Library of Medicine (NLM), and her digitized body will be used for countless computer experiments by doctors, biologists, and students.

After her death from heart disease, the woman's body was flown to the University of Colorado Health Sciences Center, where it was scanned by magnetic-resonance imaging and computed-tomography systems. Then the body was frozen solid so it could be sliced up. Cameras recorded each new cross-section as some 5,200 shavings were carefully removed over four months. Finally, all the information was compiled into a huge database—with 39 billion bytes—that will soon be available online at http://www.nlm.nih.gov.

The Visible Woman isn't the first cadaver on the Web. Last year, the NLM assembled a Visible Man. But his body was sliced into only 1,878 sections, so the Visible Woman provides three times as much detail. This will help with the next steps: using the data to create simulations of body functions and digital models that will let surgeons hone their skills.

PUTTING THE 'ESP' BACK INTO ESPIONAGE

FEARS OF AN "ESP GAP" prodded the Defense I to launch research on ps spying in the 1970s. Ho to harness extrasensory ception for gathering mil intelligence, the Pentagon since spent $20 million on eration Stargate.

The secret program to light when the CIA ord an outside evaluation. prisingly, Jessica Utts, a tistician at the Universi California at Davis, said gate's results conclusi support the existence least one form of ESP, c remote viewing. This inv describing a scene that psychic cannot see, such movie clip playing in anc room.

Another auditor, Ray man, a psychologist at University of Oregon in gene and a famous debu of psychic phenomena, agrees with Utts. Altho Hyman says the evid favoring ESP now "se better than it ever been," he says that it do necessarily rule out alte tive explanations.

A VIRUS THAT CAN SABOTAGE CANCER

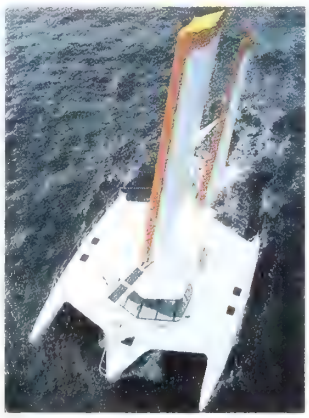
THE P53 GENE IS A MOLECULAR policeman. It detects damage in a cell's DNA and keeps the cell from dividing until repairs take place. More than half of all major cancers involve p53 genes that don't work correctly. Now, researchers at Onyx Pharmaceuticals Inc. in Richmond, Calif., are trying to capitalize on that fact. Their idea is to slip an intruder past the disabled policeman and selectively kill cancer cells.

The technique is based on the discovery that adenovirus—a virus that causes mild flu-like symptoms—makes a protein that disables the p53 gene after it enters a cell. Without p53 to interfere, the virus takes over and replicates itself, killing the cell it's in.

For their cancer therapy, Onyx scientists developed an adenovirus that can't make the protein that inactivates p53. In normal cells the virus is harmless: p53 will stop the infected cell from dividing. But in cancer cells that lack a working p53, the virus takes over production. The cancer cells eventually burst and die—releasing lots more of the virus to infect more tumor cells.

Dr. William Gerber, the chief operating officer of Onyx, says that the altered adenovirus is safe and effective in mice. Onyx hopes to begin clinical trials of the drug in people with head and neck tumors next year.

INNOVATIONS



■ Replacing a sailboat's fabric sails with a movable, vertical wing can boost performance. That's why such wings are used on some racing catamarans. Now, the technology is filtering down to the ordinary sailor in the form of a 43-foot, three-hulled "trimaran" offered by Britain's Walker Wingsail Systems. Cruising yachtsmen can control the wing with motors without leaving the shelter of the cockpit.

■ Active Control Experts Inc. in Cambridge, Mass., has developed a "smart sk with ski-maker K2 Corp. that vibrates less and makes better contact with the snow. Tiny control circuits read the ski's bendin and stiffen it as needed b sending electrical signals special materials in the sk ACX, founded by Massachu setts Institute of Technolo gy grad Kenneth B. Lazar us and one of his former professors, Edward F. Crawley, is also developin the technology for the wings of F-18 fighters to make them faster.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwdec@businessweek.com

Public service announcement courtesy of McCann Erickson at the publication

Your sales manager says "Quit advertising and give me more people."

Go ahead. But remember, there's not a sales force on earth that can call on everyone.

In large or geographically dispersed markets, it's virtually impossible to locate, let alone call on, all prospects. Even within a single large company, it's tough to reach all potential buyers of your product. And with a sales call costing nearly $300 today, it's certainly not cost-efficient.

But advertising helps find would-be purchasers and gets them to identify themselves. A recent study by the Advertising Research Foundation and the American Business Press proves that advertising translates directly into sales leads. During a 12-month campaign, a product advertised at low levels received 3.25 inquiries per thousand. When advertised at high levels, inquiries reached 5.76 per thousand.

Advertising gets your company's message in front of new, interested prospects. Discontinue advertising and you lose all communication with them.

Don't be sold on such a dangerous act. For more information on how advertising reaches the prospects you need, write the American Association of Advertising Agencies, Dept. Z, 666 Third Ave., New York, NY 10017-4056.

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This advertisement prepared by Sawyer Riley Compton, Atlanta

94B-CA

ORTS MEMORABILIA

HROWING COLLECTORS CURVE

geries abound in the $2 billion sports collectibles industry

) a true fan, the ad in the Oct. 27 edition of *Sports Collectors Digest* was a dream come true. Stan's ts Memorabilia Inc. of Caldwell, , was offering baseballs signed by more Orioles iron man Cal Ripken or $39.95—less than half what the cost elsewhere.

ream on. "Stan's selling a fake sig-re, not even a very good " says Ira Rainess, coun-o the Tufton Group, ex-ve licensee for Ripken au-aphs, and an expert on the tstop's signature. Rainess nined a ball purchased Stanley Fitzgerald, an x County (N.J.) Sheriff's e detective who moon-s as co-owner of Stan's ts. Fitzgerald says if the atures are fake, he's an in-nt victim. He says he ght the balls and other ed Ripken merchandise a California wholesaler.

r WRITERS. For most of century, collecting sports norabilia meant saving favorite baseball cards in oebox or using a chance unter with Joe DiMaggio et an autograph for your No more. Athletes began ng for cash at card shows e late 1970s. A hot ball-er can now get $50 apiece ing balls directly for fans. ddition, top athletes today ematically sign thousands baseballs, footballs, and ey pucks a year that go ght to wholesalers. That pushed sales of sports col-bles close to $2 billion a and caused legal problems of a dif-nt sort for other big-name ball play-Former Brooklyn Dodger Duke er agreed to pay a $5,000 fine earli-his month for tax evasion stemming the practice. "People now see e items as investments, not souve-," says Thomas Mortenson, editor *Sports Collectors Digest*. "Twenty years ago, that was unheard of."

Collectors scour the market for signed trinkets, driven not by love of a sports hero but by visions of hitting a home run on the collectibles circuit. Sotheby's began handling sports memorabilia in 1991, the year it sold a Honus Wagner baseball card for $451,000. A Babe Ruth bat went for $63,000 three years later. But along with the commercialization has come fraud—fake signatures churned out by unscrupulous dealers. "All you need is an 89¢ Bic pen, a $4 baseball, and you're in business," says Rainess.

Ripken has recently become a favorite among the con artists. He broke into the top tier of collectibility last summer when he broke Lou Gehrig's record for most consecutive games played. But since he only signs around 8,000 balls a year—a fifth of what other big names pen—there's little Ripkeniana around. That has helped create a frenzied trade in bogus Ripken collectibles. Rainess estimates that sales of fake Ripken collectibles could reach $15 million this year, compared with just $5 million for the real stuff.

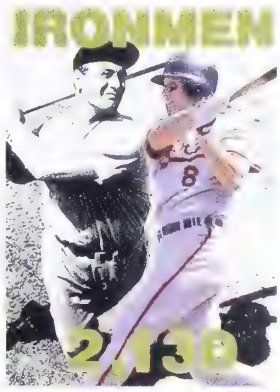
Unlike many athletes, Ripken, who earns $6 million a year from the Orioles and about $2 million in endorsements, refuses to sign for cash at card shows. He does a few bulk signings for Score Board Inc., the exclusive source for Ripken's signed merchandise, based in Cherry Hill, N.J. Score Board wholesales signed Ripken balls for around $70. "It should send up a bright red warning flag to any collector if anybody is selling Ripken baseballs in bulk for less than $60," says Chief Executive Ken Goldin.

CERTIFIED FAKES? There should be plenty of those red flags. "We see guys in here every month trying to pawn off fake Ripken stuff," says Thomas Lyddane of Burton's Baseball Cards & Coins in Frederick, Md. And forged baseballs aren't the only Ripken ripoff. Mick & Menu Inc. in Santa Ana, Calif., advertises lithographs of Ripken by artist Angelo Marino and "autographed" by the baseball great. Cost: more than $1,000. But Ripken never signed the lithographs, says his spokesman. Marino says he sold the lithographs to Mick & Menu unautographed. Mick & Menu didn't return phone calls.

Most dealers, including Fitzgerald, will take back merchandise if buyers have doubts. But few victims want to believe they've been duped. Maryland's Consumer Protection Div. hasn't received a single complaint concerning Ripken fakes. Most dealers offer a certificate of authenticity with their goods. "Don't be fooled," warns Steven Rotman, president of Sports Collectibles Association International. "Those certificates are only as good as the person who's giving them out." After all, it's not much harder to sign a certificate than it is to autograph a baseball.

By Willy Stern in Baltimore

BAD INK: *Ripken didn't sign the ball on the right*



CARD TRICK: *Honoring Gehrig and Ripken—but without a license*

Buyer Beware

Experts say there's a lot of fake Cal Ripken memorabilia out there, much of it sold at prices that seem too good to be true.

ITEM SIGNED BY CAL RIPKEN	TYPICAL PRICE	DISCOUNTED PRICE
BALL	$ 109	$ 44
BAT	449	180
HELMET	169	60
TRADING CARD	89	35

DATA BA

EDITED BY AMY DUNKIN

YOUR PC'S PIPELINE TO WALL STREET

While you're busy grinding out a living each day, you hope your investments are working as hard as you are. But how can you tell? For the longest time, getting up-to-the-minute financial news meant shelling out $1,000 or more a month for a Bloomberg or Quotron machine—a luxury only Wall Street professionals could justify. Luckily, a growing number of affordable news services let you keep close tabs on your investments during the day—without lifting a finger. While online services used to require you to log on for updates, newer products deliver the news automatically to your PC, pager, or other wireless device.

For investors on a budget, the most reasonable sources of financial news are CompuServe, Prodigy (800 776-3449), America Online (800 827-6364), and the new Microsoft Network (800 386-5550). Each offers a free trial that lets you take their service for a quick spin via modem. After that, most charge around $10 a month for the first five hours of access, though CompuServe and Prodigy add surcharges just for access to their investment forums.

MAPS AND MESSAGES. Given the aim of these mass-market services to offer something for everyone, they may leave many serious investors wanting more. All offer wire-service news as well as access to other financial publications and the Internet. But unlike the others, the new Microsoft Network still doesn't provide delayed stock quotes—although it gives access to Web sites that do. And only Prodigy alerts you when there's news affecting your stocks. The biggest problem is the inability to deliver news to you automatically and in a way that's tailored to your interests.

Fortunately, there are add-on software programs that can remedy this, at least for CompuServe subscribers. These "agents" dial in at designated intervals to retrieve updated news and quotes. The most comprehensive is the $39.95 Rosebud from Magee Enterprises (800 662-4330). It retrieves news on any company, industry, or market you specify, updates your portfolio value, and even transmits a splashy weather map.

For mobile investors, Rosebud also sells a $25 program that alerts you via pager to critical developments such as a sharp swing in a stock price. If you just want to monitor a specific portfolio, Virgil (415 433-9025) sells a $59.95 CompuServe add-on, StockTracker, that retrieves quotes and news on as many as 250 stocks and mutual funds, then sends you a pop-up message when it's done. Tracking 25 stocks averages about 15¢ per session, so four daily updates would add around $12 to CompuServe's basic $9.95 monthly fee. All of these services draw their news from the leading financial wires, such as Dow Jones and Reuters, both of which

INVESTING

Sensing there's mon be made on Main St Dow Jones and Reuters offer services of their priced for the small inv Dow Jones's latest offer Personal Journal, which vides top news from morning's *The Wall S Journal* plus Dow Jones updates. Designed to co the *Journal*'s authorit analysis with the imme of a wire service, Per Journal falls short on counts. For about the price as a subscription t newspaper, you get a fra of the printed content. Personal Journal allows to track news and quote only 25 companies—few you want to follow the per's popular features, as the "Heard on the Str column. Also, you must extra if you want more one daily update.

If you need running dates throughout the day service worth watching be Dow Jones's evolving ternet Web site, meant t an interactive version of

Street Journal. For it's free, but by spring, Jones plans to charge cess to the full text of day's paper, plus news es from the Dow wires, quotes, charts, and ial data on more than companies. For a peek, your Web browser to /update.wsj.com.

CARTE PLANS. If you ait until after the mar- close, the Private In- r edition of Dow Jones's sive News/Retrieval ser- nay offer the best value. 29.95 a month, you get hours of access to some same wire services and ases for which corporate pay hundreds of dol- The catch: You can only he service evenings and ends, or you get slapped the same surcharge cor- e users pay—$1.50 for 1,000 characters, or a screen of data. And te Investor doesn't al- you to create "folders" collect news on a portfo- stocks; you have to en- anually each ticker sym- or company name you to search.

uters Money Network should be the perfect service: For $7 to $30 a month, you can download up to 1,000 articles on your companies a month, screen through a universe of 5,200 stocks by such criteria as dividend yields and earnings growth, and create alarms that alert you to news affecting your stocks and funds, such as a major price move. But the program can be difficult to configure and use. What's more, Reuters doesn't always move news as quickly as its rivals: When the Talbots retail chain reported third-quarter earnings, the news moved within minutes on Personal Journal but took more than an hour on Reuters Money Network.

If headlines and wire stories leave you hungering for meatier information, you may find two new services more satisfying. Instead of charging a flat rate for access, Profound and NewsPage offer "à la carte" pricing plans that let you pay largely for the news you can use. A recent search through NewsPage, which operates as an Internet Web site (http://www.newspage.com), for articles on Intel turned up 18 stories from various sources. NewsPage organizes stories by topic, leaving you to dig through several layers to find items of interest. You can use your Web browser to leave "bookmarks" for easy reference.

Profound (800 270-9896) charges $19.95 a month, plus $6.95 an hour, to search its databases. But what databases: The dial-up service provides access to more than 4,000 periodicals, including Wall Street research reports (albeit a month old). A Dean Witter Reynolds report on Intel, for instance, cost $25. Profound is also distinguished by its use of Adobe Acrobat, which displays reports in their original form—complete with graphics. While Adobe documents are impressive when printed out, they can be hard to read onscreen and painfully slow to save to your hard drive. Downloading Profound's eight-page news summary, updated each hour, took more than 10 minutes with a 14,400-baud modem—delivering, in effect, a $1.50 newspaper.

Some entrepreneurs have seized on the Internet's growing reach to deliver news by electronic mail. If you have Internet access and an internal E-mail system at the office, these programs can deliver news flashes straight into your computer. And they're ideal if your job takes you on the road with a laptop. The best E-mail program is Farcast, which transmits news from the Associated Press, United Press International, and corporate releases.

DOWNTIME. For around $30 a month, Farcast sends you periodic news summaries, portfolio updates, plus headlines for any 15 companies or key words. You simply E-mail back the numerical codes of the stories you want and within minutes, Farcast shoots you the full text. QuoteCom provides midday and end-of-day quotes for up to 200 stocks, plus news flashes, starting at $9.95. The weakness of the E-mail services is that, with the Internet straining under the weight of its growth, messages occasionally take hours to arrive: News that Salomon Brothers updated Chips & Technologies to a "strong buy" moved three hours after Standard & Poor's issued the notification.

While most of these services promote themselves as affordable, it's still easy to rack up huge bills if you avail yourself of all their bells and whistles. How much should you budget for news and quote services? Financial experts recommend spending no more than 1% of your portfolio's value on research and brokerage commissions combined—about the same level of expenses charged by the average mutual fund. With luck, you'll recoup the costs of these services many times over. *Dean Foust*

Online News and Quote Services

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NEWS/ -PRIVATE EDITION	Dial-up service. $29.95 for 8 nonprime hours, extra hours, $3.60. 800 815-5100	Lets you search five Dow Jones wire services evenings and weekends for company news. Can't create "folders" that collect news automatically.
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.0	Dial-up service. $12.95/month for one daily update; additional updates, 50¢ each. 30-day free trial. 800 291-9382	Top stories from *The Wall Street Journal*, plus news updates for any 25 companies. Can also monitor popular *WSJ* features such as "Heard on the Street" column.
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DATA: BUSINESS WEEK

YESTERDAY, WHY'D YA TOSS IT ALL AWAY?

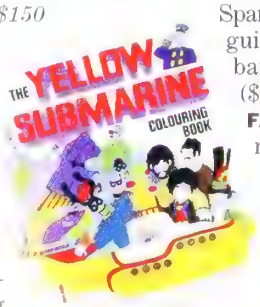
COLLECTING

I read the news today, oh boy. And in case you missed it, Beatlemania is back.

Actually, you'd have to be submerged in a yellow submarine not to notice the "return" of the most popular band in rock 'n' roll history. Over three nights in November, ABC ran *The Beatles Anthology* documentary, which culminated in the premiere of the songs *Free As A Bird* and *Real Love*. Capitol Records' two-CD Beatles Anthology set hit stores just after the first TV broadcast, and another volume is due out in February. A 10-hour home video version of the TV special will also appear in 1996, and already new Beatles "collectors edition" magazines are on newsstands.

Yet the second coming of the Fab Four does not mean you can transform your old Beatles records and other Mop Top memorabilia into a lucrative college fund for your post-Ed Sullivan generation kids. Indeed, while interest in Beatles collectibles has always been strong, and experts figure the current craze will lead to higher prices for many objects, early evidence suggests you should keep your expectations in check. "People mistakenly look at an item that has the Beatles pictured on it and think it's worth $1,000," says Rick Glover, an Atlanta collector. "In most cases, it's not."

At a pop memorabilia auction held at New York's Christie's East on Nov. 29, some Fab flotsam fetched decent prices, including a framed album of *A Hard Day's Night* signed by all the band members ($2,800 before commission), a terry cloth robe worn by John Lennon ($1,900), and a half-dozen cels from the animated *Yellow Submarine* movie ($5,000). But a number of other lots—which included checks signed "George Harrison" or "R. Starkey"—failed to sell, and many brought final bids below the estimates in the catalog. Sotheby's gets its own shot with a New York auction on Dec. 16. Among the items for sale: a handwritten manuscript by Paul McCartney with orchestration instructions for *Hey Jude* (estimated price: $40,000 to $45,000) and a Spanish-style acoustic guitar used by the band circa 1960-62 ($9,000 to $12,000).



CRAYON GAME: *This coloring book could fetch $150*

FAN FARE. Fortunately, a spirited market exists for nostalgic Beatles fans who can't afford to buy things that were actually worn or used by John, Paul, George, and Ringo. This is the paraphernalia you might find stashed away in an attic or, if you're lucky, at a flea market—everything from Beatles dolls and fan club items to lunch boxes and wigs. According to Jeff Augsburger, co-author with fellow collectors Marty Eck and Rick Rann of *The Beatles Memorabilia Price Guide* ($24.95, Wallace-Homestead Books), a copy of Milton Bradley's 1964 Flip Your Wig board game is worth $100 to $150. Rann says a can of the Beatles Hair Spray, manufactured by Bronson Products in 1964, might bring about $800, though collectors should be warned that replicas are floating around. A difficult-to-locate item is the Beatles four-

SHINE ON: *The Beatles helped market everything from record players to pomade*

speed record player. Only about 5,000 were produced in 1964. They sold for $29.95—and one today in excellent condition could command $2,000.

But with rare exceptions, the Beatles records you've held onto probably aren't worth much, simply because so many people own copies. Promotional records that were issued only to radio deejays can be valuable, however. And in top shape, the paper sleeves that some records came in are worth more than the vinyl itself. A hard-to-find sleeve for the *Can't Buy Me Love* 45 RPM is valued around $300, compared with just a couple of dollars for the platter. Another rarity: the *The Beatles* cardboard play, in which tiny bat powered motors rock Beatles' heads back and It can go for anywhere $2,500 to $10,000.

CANDLESTICK KARMA. Or tickets and programs to les concerts are also i mand. Augsburger wil $175 to $200 for stubs to tles concerts twice that fo used tickets. certs with hi cal significance Beatles' visi New York's Stadium in 19 San Franci Candlestick Pa 1966, which tu out to be thei on tour—are ticularly valu Tickets with tos of the bar its face are w more than t without pict But Be trading c which are fairly easy find, may fetch a dolla two in near condition.

Collectors ca cate items at well-attended Be conventions, held a few t a year around the cou You can also check out a publications such as *Be fan*, ($15 for six issues, Box 33515, Decatur, 30033) or buy goodies f like-minded pals in the lectibles forum on Con Serve. Indeed, Beatles m acs can usually find stuff a little help from t friends. *Edward*

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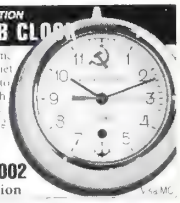

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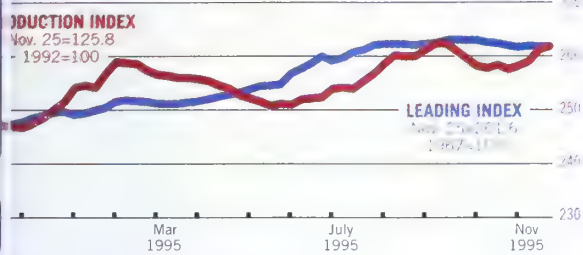
usiness Week Index

DUCTION AND LEADING INDEXES

ge from last week 0.5%
ge from last year 0.5%

Change from last week 0.5%
Change from last year 5.8%



es are 4-week moving averages

oduction index edged up during the week ended Nov. 25. Before ition of the four-week moving average, the index dropped to 125.9, 27.2, in part reflecting plant closings in the auto and truck industry Thanksgiving holiday.

ading index was unchanged in the latest week. The unaveraged index 260.5, from 261.5. Slower growth rates for real estate loans and als prices offset the positive signs from stock prices and bond yields.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (12/2) thous. of net tons	1,934	1,886#	-3.3
AUTOS (12/2) units	124,055	82,062r#	-15.7
TRUCKS (12/2) units	116,912	68,977r#	-5.0
ELECTRIC POWER (12/2) millions of kilowatt-hrs.	58,996	57,288#	1.6
CRUDE-OIL REFINING (12/2) thous. of bbl./day	14,223	13,875#	0.3
COAL (11/25) thous. of net tons	17,568#	19,450	-2.1
PAPERBOARD (11/25) thous. of tons	827.3#	818.1r	-8.6
PAPER (11/25) thous. of tons	806.0#	797.0r	-5.6
LUMBER (11/25) millions of ft.	273.0#	422.2	-14.7
RAIL FREIGHT (11/25) billions of ton-miles	21.1#	25.2	2.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (12/1) S&P 500	605.55	598.86	33.7
ORATE BOND YIELD, Aaa (12/1)	6.94%	7.03%	-19.0
STRIAL MATERIALS PRICES (12/1)	111.2	111.8	NA*
IESS FAILURES (11/24)	NA	322	NA
ESTATE LOANS (11/22) billions	$501.8	$503.1r	10.2
Y SUPPLY, M2 (11/20) billions	$3,729.6	$3,718.4r	4.3
IL CLAIMS, UNEMPLOYMENT (11/18) thous.	379	370	15.5

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on is failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (12/6) $/troy oz.	388.400	388.500	2.8
STEEL SCRAP (12/5) #1 heavy, $/ton	134.50	134.50	-3.9
COPPER (12/2) ¢/lb.	137.6	142.7	-2.0
ALUMINUM (12/2) ¢/lb	78.5	77.5	-15.1
COTTON (12/2) strict low middling 1-1/16 in., ¢/lb.	83.66	85.18	8.5
OIL (12/5) $/bbl.	18.66	18.28	10.2

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (12/5)	5.72%	5.69%	5.47%
IERCIAL PAPER (12/5) 3-month	5.69	5.73	6.26
IFICATES OF DEPOSIT (12/5) 3-month	5.67	5.73	6.28
MORTGAGE (12/1) 30-year	7.60	7.64	9.36
STABLE MORTGAGE (12/1) one-year	5.71	5.68	6.47
E (12/6)	8.75	8.75	8.50

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (12/6)	101.42	101.60	100.45
GERMAN MARK (12/6)	1.44	1.44	1.58
BRITISH POUND (12/6)	1.54	1.53	1.56
FRENCH FRANC (12/6)	4.97	4.93	5.43
ITALIAN LIRA (12/6)	1595.0	1595.7	1631.7
CANADIAN DOLLAR (12/6)	1.37	1.36	1.38
MEXICAN PESO (12/6)	7.655	7.465	3.439

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

JCER PRICE INDEX

ay, Dec. 12, 8:30 a.m. ▶ Producer of finished goods likely rose 0.2% in ıber, after slipping 0.1% in October. the median forecast of economists ed by MMS International, one of The w-Hill Companies. Excluding food ıergy, core producer prices in Novem- obably rose 0.2%, after showing no e in October.

L SALES

esday, Dec. 13, 8:30 a.m. ▶ Retail probably rose 0.4% in November, in part by healthy sales of motor es and early holiday shopping. Retail ell 0.2% in October, but the volatile retail data are often revised in subsequent reports. Excluding cars, retail buying probably rose 0.4%, after falling 0.5% in October.

CONSUMER PRICE INDEX

Thursday, Dec. 14, 8:30 a.m. ▶ The MMS median forecast projects that consumer prices climbed by 0.2% in November, following a modest 0.3% gain in October. Excluding food and energy prices, the core CPI probably also rose 0.2% last month, from an increase of 0.3% in October.

INDUSTRIAL PRODUCTION

Thursday, Dec. 14, 9:15 a.m. ▶ Output at factories, mines, and utilities was likely unchanged in November, after falling 0.4% in October. That's suggested by the decline in output already reported by the National Association of Purchasing Management. Capacity use likely was unchanged from October's level of 83.2%.

BUSINESS INVENTORIES

Thursday, Dec. 14, 10 a.m. ▶ Inventories held by manufacturers, wholesalers, and retailers probably rose 0.3% in October, the same increase posted in September. The expected rise would be a sign that the inventory correction is taking longer than initially expected. Business sales were probably little changed in October, after rising 0.4%. That's suggested by weak retail sales for the month.

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BusinessWeek ONLINE

Sunday

Stock offerings such a Netscape's fuel innovation and growth—and create billionaires. Read this week's Cover Story, then discuss the boom in IPOs with BW's Chris Farrell. **Dec. 10**

9 p.m. EST in the Globe

Wednesday

What Color Is Your Parachute? This guide to the job hunt was first published 25 years ago, and more than 5 million copies later author Richard Nelson Bolles will join us online. **Dec. 13**

8 p.m. EST in the Odeon

Thursday

Peter Drucker's 27th book, *Managing in a Time of Great Change*, is just out. Talk with this eminent authority on business and how it works. **Dec. 14**

9 p.m. EST in the Coliseum

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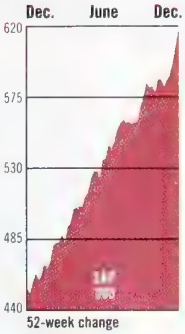
vestment Figures of the Week

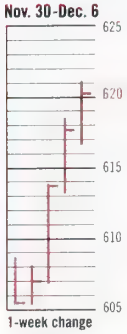
NTARY

nd prices surged on ex-
ns of an interest-rate cut
ederal Reserve, pushing
on 30-year Treasuries to
the lowest level in two
ne five-day total return for
bonds, at a nifty 2.75%
tom of page), eclipsed the
ve-day return from U.S.
The euphoria in bondland
ver into the stock market,
the Dow continue its climb
greater heights. The index
p a 1.8% gain to close the
air below 5200.

STOCKS

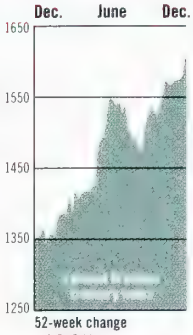


52-week change
+37.4%

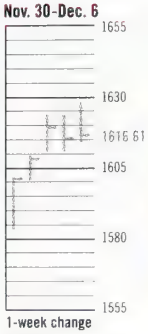


1-week change
+2.1%

BONDS

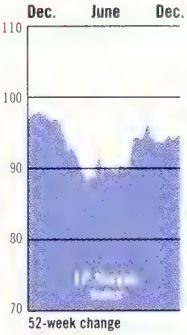


52-week change
+20.3%



1-week change
+1.8%

THE DOLLAR



52-week change
-2.4%

1-week change
+0.3%

KET ANALYSIS

OCKS	Latest	% change Week	52-week
IES INDUSTRIALS	5199.1	1.8	39.2
COMPANIES (S&P MidCap Index)	218.6	0.6	32.1
OMPANIES (Russell 2000)	312.7	1.9	30.2
PANIES (Russell 3000)	353.6	1.9	37.1

N STOCKS	Latest	% change (local currency) Week	52-week
(FINANCIAL TIMES 100)	3662.8	0.2	21.6
IKKEI INDEX)	19,067.9	2.9	–0.6
) (TSE COMPOSITE)	4745.1	1.6	16.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.47%	5.48%	5.79%
30-YEAR TREASURY BOND YIELD	6.03%	6.20%	7.89%
S&P 500 DIVIDEND YIELD	2.20%	2.46%	2.86%
S&P 500 PRICE/EARNINGS RATIO	18.3	17.2	16.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	548.5	545.3	Positive
Stocks above 200-day moving average	67.0%	64.0%	Neutral
Speculative sentiment: Put/call ratio	0.57	0.57 r	Negative
Insider sentiment: Vickers sell/buy ratio	1.52	1.64	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
L AND GLASS CONTAINERS	17.8	11.7	CROWN CORK & SEAL	22.1	15.8	42 1/8
NEERING AND CONSTRUCTION	16.0	41.9	FLUOR	19.9	52.2	66 3/8
ND GAS DRILLING	14.6	12.7	ROWAN	19.6	26.4	8 3/8
NSE ELECTRONICS	14.3	85.4	LORAL	16.7	79.4	35 7/8
IFACTURED HOUSING	13.2	24.7	FLEETWOOD ENTERPRISES	13.2	29.6	24 5/8

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
CONDUCTORS	–15.3	48.2	MICRON TECHNOLOGY	–20.5	134.3	51 1/4
PUTER SYSTEMS	–6.3	38.2	COMPAQ COMPUTER	–13.0	14.1	47 1/2
S	–4.2	31.1	REEBOK INTERNATIONAL	–23.2	–32.4	26 1/8
SPORTATION SERVICES	–2.0	31.4	FEDERAL EXPRESS	–5.3	45.5	80 3/4
R CONTAINERS	–1.8	3.0	STONE CONTAINER	–7.5	–6.1	15 3/8

UAL FUNDS

MORNINGSTAR INC

RS

ek total return	%
EQUITY	10.2
HT EQUIFUND-MEXICO	9.3
APANESE SMALL COMPANY	8.7

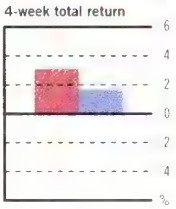
k total return	%
R CAPITAL APPRECIATION	87.4
TT SMALLER COMPANIES A	85.1
LITY SELECT ELECTRONICS	80.2

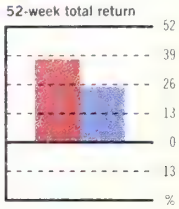
LAGGARDS

Four-week total return	%
STEADMAN TECHNOLOGY GROWTH	–13.0
EV MARATHON GREATER INDIA	–11.2
ROBERTSON STEPHENS VALUE + GROWTH	–9.9

52-week total return	%
WRIGHT EQUIFUND-MEXICO	–57.0
EV MARATHON GREATER INDIA	–39.1
BT INVESTMENT LATIN AMERICAN EQUITY	–38.8

S&P 500 Average fund





ATIVE PORTFOLIOS

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mounts represent the
value of $10,000
d one year ago
portfolio

tages indicate
y total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$14,047	$13,493	$11,836	$10,561	$10,048
+1.85%	+2.75%	+0.94%	+0.12%	–0.60%

on this page are as of market close Wednesday, Dec. 6, 1995, unless otherwise indi-
dustry groups include S&P 500 companies only; performance and share prices are as of market close Dec. 5. Mutual fund returns are as of Dec. 1. Relative portfolios are valued as of Dec. 5. A more detailed explanation of this page is available on request. r=revised

AMERICA'S IPO EDGE

It's like watching the birth of a new galaxy. From Netscape Communications to Boston Beer, hundreds of new companies are going public, the explosive stage of a process that begins with basement startups and continues until a business is large and viable enough to tap the public capital markets. In 1995, initial public offerings are expected to raise a stunning $29 billion, laying the foundation for the next cycle of U.S. prosperity. What's more, the new businesses energize the entire economy, as established companies speed up their own innovation to avoid being blown away.

This new generation of small, innovative companies—the envy of the industrialized world—reflects in large part the health of the U.S. financial markets. Like no other markets in the world, they are able to direct money into innovative and risky ventures that can pay off big. Neither Japan nor Europe has a good way of funding startups, a key deficit in this era of rapid technological and economic change.

What can the U.S. do to maintain and improve its advantage? At the top of the list is keeping the financial system as open and transparent as possible. One good step is new legislation that would encourage companies to release as much information as possible while penalizing fraud. The Securities & Exchange Commission should follow policies that offer a level playing field to all and discourage insider trading. That's the way to make investors more comfortable about putting their money into high-risk, high-return ventures.

At the same time, regulators need to move quickly to maintain the soundness of the financial system when problems do arise. In the late 1980s and early 1990s, the U.S. finally took steps to deal with the long-festering S&L crisis. M American banks are on their soundest financial footi decades. In Japan, by contrast, the persistent overhang o real estate loans is weighing down the entire financial s and exerting a paralyzing effect on the stock market.

The IPO boom also shows the power of tax policies th courage savings and discourage wasteful investment. M funds, fueled by the retirement funds of baby boomers, become key buyers of new public offerings, as tax-ex 401(k) accounts and other savings incentives pump bi through the financial system. Conversely, the 1986 tax r act made it much less tempting for wealthy individuals vest in nonproductive tax shelters such as real estate, increasing the attractiveness of investing in growing nesses. That's why Congress, as it tinkers with the tax should resist the urge either to create new loopholes o it tax-exempt retirement accounts in order to save mo

Finally, the ability of innovative companies large and to raise money is a tangible benefit of the U.S. go ment's following sound economic policies. IPOs are thrivi large part, because the entire stock market is booming stock market, in turn, has been lifted by economic policies are holding down inflation and interest rates to their l levels in a generation. A smaller budget deficit—when gress and the White House agree—will free up even capital that can be used to fund growing businesses.

The IPO market will always be a volatile one: Inve should understand that many new companies will fail. that's a clear sign of the creative ferment needed for gr

MEDICARE: PLENTY OF ROOM TO DEAL

President Clinton and the GOP leadership are inching toward a compromise on a seven-year budget plan. To make their self-imposed Dec. 15 deadline, they'll have to speed things up, but at least the critical logjam over Medicare seems to be breaking. The difference between the proposed dollar amounts, $270 billion in Medicare cuts from the GOP and just $124 billion in cuts from the Administration, is still large. In reality, though, the philosophies behind the Medicare overhaul are similar, and that should lead eventually to a budget deal.

But there's more good news: The GOP and Democrats are also getting pretty close to achieving the key goals of Medicare reform—wider choice for the elderly, including more use of managed care and more competition among providers, leading to slower medical inflation. This level of consensus is something of a pleasant surprise, after all the vitriolic rhetoric the two parties have been trading this year. The big sticking point that remains: the standard Medicare insurance premiums charged to the elderly. The GOP wants to let the current $46.10-a-month premium rise with inflation to $88.90 by The Clinton Administration first balked at any increase current law, but now it is proposing to allow the premiu increase in the later years, to $77 by 2002. The differen just $12, but the total dollar amount over seven years be considerable: as much as $32 billion. But even with the publican proposal, seniors will be paying for just 31% o cost of their outpatient insurance benefits, with taxpa picking up the rest.

Clinton is still expected to veto Congress' medical plan afterward, the President should accept the GOP Med measure as the basis for serious negotiating. Admittedly GOP bill isn't perfect. For example, it still contains a gimm "fail-safe" provision that promises unspecified cuts of payn to doctors and hospitals should other policy changes f provide expected dollar savings. That clumsy provision o to be dropped. Once the President puts down his veto and the political posturing ends, the country can finally sensible compromise on Medicare.

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Vista *Investors*	**54.3%**	**24.7%**	**19.4%**	**14.8%** *(11/25/83)*
Giftrust† *Investors*	**49.6%**	**38.2%**	**26.9%**	**23.0%** *(11/25/83)*
Select *Investors*	**19.0%**	**11.7%**	**13.7%**	**16.6%** *(6/30/71)***
Growth *Investors*	**31.0%**	**18.5%**	**17.5%**	**18.8%** *(6/30/71)***
Heritage *Investors*	**27.3%**	**18.3%**	—	**17.1%** *(11/10/87)*

† Giftrust is an irrevocable trust designed to be given as a long-term gift to someone other than yourself or your spouse and is not available for an IRA.

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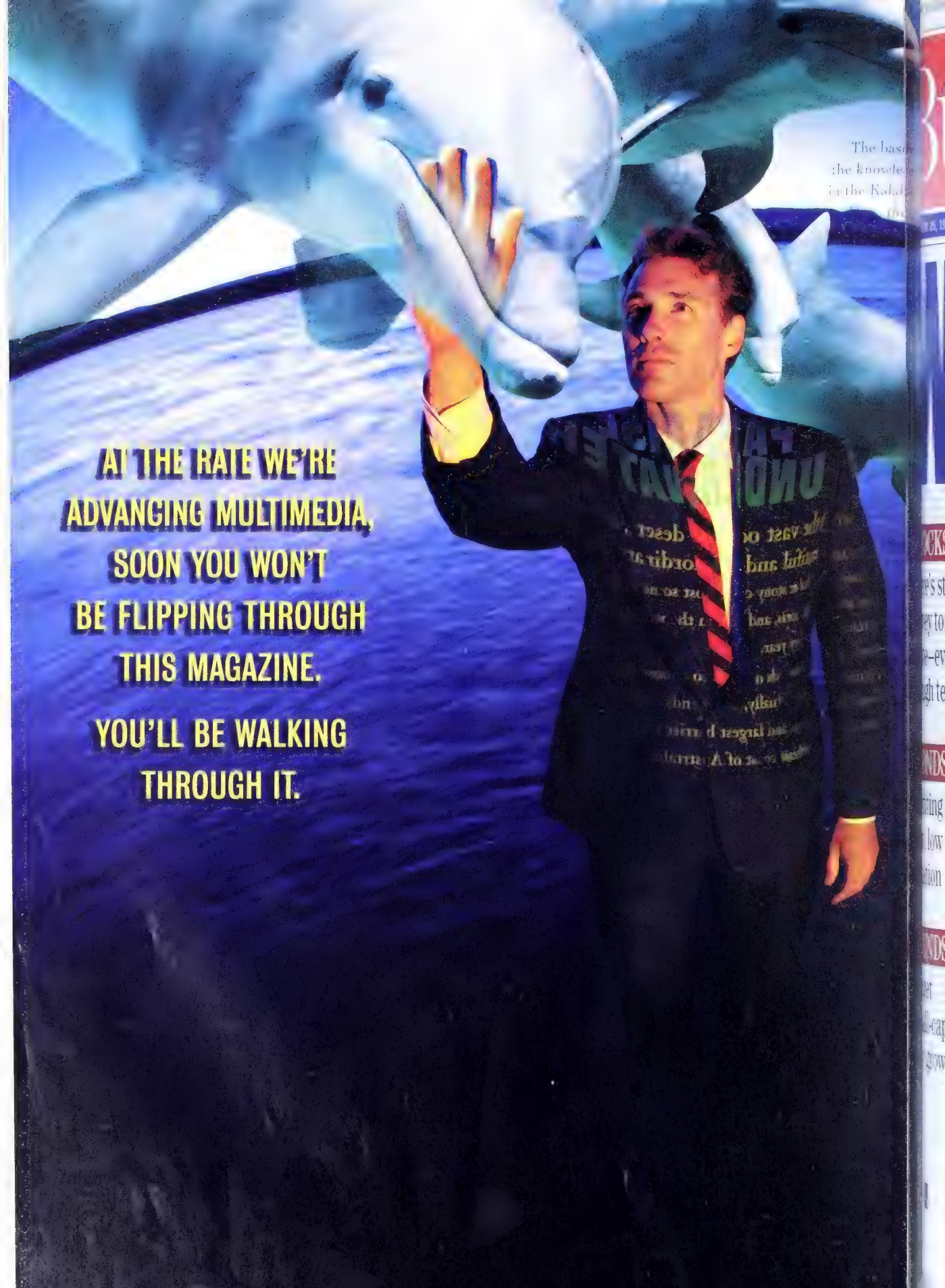
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BONDS
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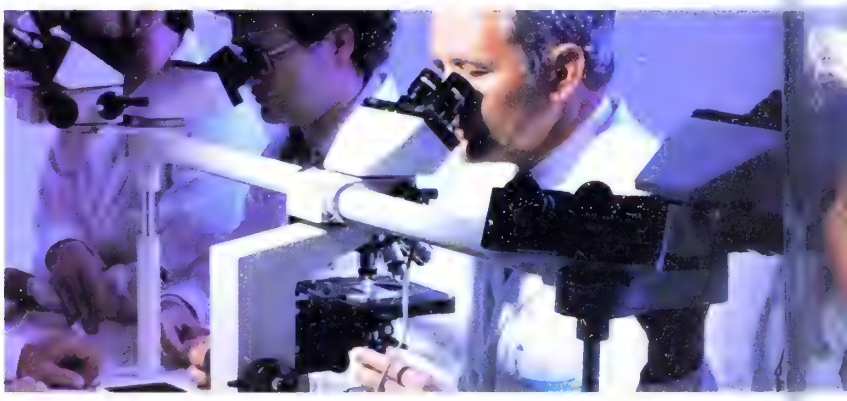

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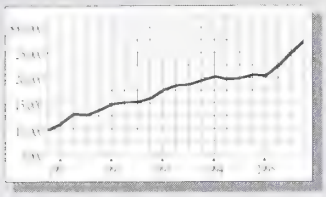
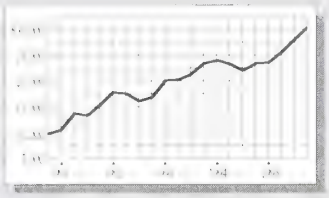
Past performance is no guarantee of future results. Returns will vary and shares may be worth more or less than original cost.

NEUBERGER & BERMAN GUARDIAN



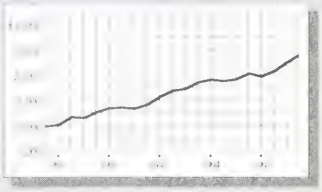
Value of investment: $27,387
Average annual returns (as of 9/30/95):
1 year +32.26% 5 year +22.32%
10 year +16.16%

INVESCO DYNAMICS



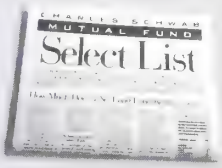
Value of investment: $30,583
Average annual returns (as of 9/30/95):
1 year +29.97% 5 year +25.05%
10 year +15.69%

STRONG OPPORTUNITY



Value of investment: $24,180
Average annual returns (as of 9/30/95):
1 year +18.57% 5 year +19.31%
Since inception (12/31/85) +18.32%

MORNINGSTAR *Data provided by Morningstar, Inc. as of 9/30/95. These and over 350 funds are available through Schwab's Mutual Fund OneSource.*



For an objective ranking of the historically high-performing funds available through Schwab, call for two free issues of Schwab's Mutual Fund Select List:

1-800-5-NO-LOAD

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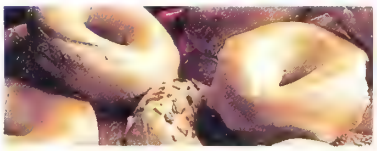
Ford is sluggish, and it may be a while before it bounces back page 36



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)OESN'T GET BETTER THAN THIS'
5's ride may not be duplicated, but
re's no reason to bail out yet

ıe Framework

SINESS OUTLOOK
th low rates and next to no inflation,
expansion still has plenty of juice

P GURU
vid C. Munro, the No. 1 forecaster

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e coming battles of the Potomac

ST BETS
guide to the 1996 financial landscape

ARLESS MARKET FORECASTERS
ɔck strategists say the Dow will rise
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rategies for Stocks

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ose spiraling numbers reflect the
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Up Front

EDITED BY LARRY LIGHT, WITH PAUL ENG

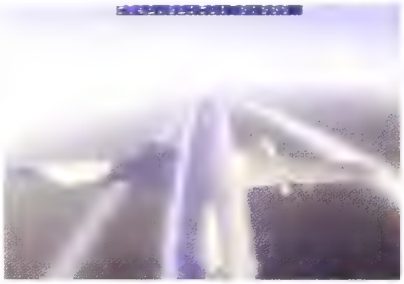
TALK SHOW "Some of our friends are for it. Some of our friends are against it. And we're standing with our friends."

—White House Press Secretary Mike McCurry on whether President Bill Clinton will veto a bill to curb securities lawsuits

FEAR OF FLYING

THE DEADLY RIDDLE OF THE 737

BRITISH OFFICIALS MAY unearth a clue to a pair of mysterious and deadly crashes of Boeing 737-200s in the U.S. They're investigating why a British Airways 737-200, on a test flight without passengers, started to roll 20 degrees about every three seconds for several minutes at 20,000 feet. Pilots righted the jet and landed it safely at Gatwick Airport outside London. The Oct. 22 incident shares some similarities to the U.S. tragedies.



REPLAY: *Wake turbulence is studied in a simulation of the USAir crash*

Boeing and BA say no links have been established between the British mishap and the two U.S. crashes. But Britain's Aircraft Accident Investigations Branch is giving the probe its highest priority.

The British pilots' success may be because they were flying high enough to regain control. In 1991, a United Airlines 737 in the process of landing flipped over and crashed outside Colorado Springs, Colo., killing all 25 aboard. In September, 1994, all 132 passengers died when a USAir 737 banked to the left and nose-dived into a hillside outside Pittsburgh during its landing approach. Puzzled American officials have made numerous tests, simulating these flights to pinpoint possible causes for the 737 disasters, such as turbulence from another jetliner's wake. *Christina Del Valle*

I-WAY PATROL

I DREAM OF BUYING GENIE

GENIE HAS FACED A TOUGH time granting parent General Electric its wish: to sell the 10-year-old online service. But now, GEnie may have a buyer, a group of its independent information providers. Ed Perrone, who furnishes the network with daily horoscopes, says that he and 40 other providers are trying to raise capital from investors to bid for the orphan service.

GEnie has been on the block since Nov. 13, but the top three services (America Online, CompuServe, and Prodigy) seem uninterested. With just 100,000 subscribers, it's only one-tenth Prodigy's size. Another minus: The sale of GEnie—created to boost nighttime usage of the business-oriented General Electric Information Services (GEIS) network—doesn't include the network's servers and other gear.

Perrone doesn't recoil at paying $35 million—analysts' estimate of GE's asking price—for a distant-fifth-place service. Some analysts think GEnie actually turns an enticing profit, since its members spend hours online playing so-called multiplayers games such as Air Warrior, rather than merely sending E-mail. So Perrone feels GEnie just needs a stronger marketing push. Both GE and Allen & Co., hired to sell the service, declined comment on potential buyers. □

THE LIST TREASURY'S PIGGY BANK

Federal pockets may be deeper than you think. If Republicans again refuse to hike the debt ceiling, Treasury Secretary Robert Rubin plans to tap pension funds, as he did in November. He says he then can service debt into February—no promises after that. But Congress' Joint Economic Committee says fund raiding and asset sales can keep things going until 2007.

RUBIN

HOW TO GET AROUND THE DEBT CEILING

	BILLIONS	WOULD RUN OUT
DIP INTO TRUST FUNDS		
Federal employee retirement	$485	Nov., 1998
Highway, airport, airways, other	80	Mar., 1999
Unemployment insurance, railroad retirement	61	July, 1999
Social Security, Medicare	481	July, 2001
SELL OFF ASSETS		
Gold, foreign exchange, other monetary assets	205	Mar., 2002
Mortgages, loans, other financial assets	388	Nov., 2003
Inventories, nondefense fixed capital	402	Aug., 2005
Land, mineral rights	577	Oct., 2007

DATA: JOINT ECONOMIC COMMITTEE

CARROT DANGLING

WILL MANZI'S MINIONS WALK, TO

LOTUS FACES A LOYALTY T More than 1,000 employ many of them crucial s ware developers, can col cash bonuses in mid-Dec ber for staying on. The nuses, worth 10% to 20% annual base salary, were tactic to keep key people ter it swallowed the comp for $3.5 billion in June. big question is: Will they s after the payout?

When IBM launched its

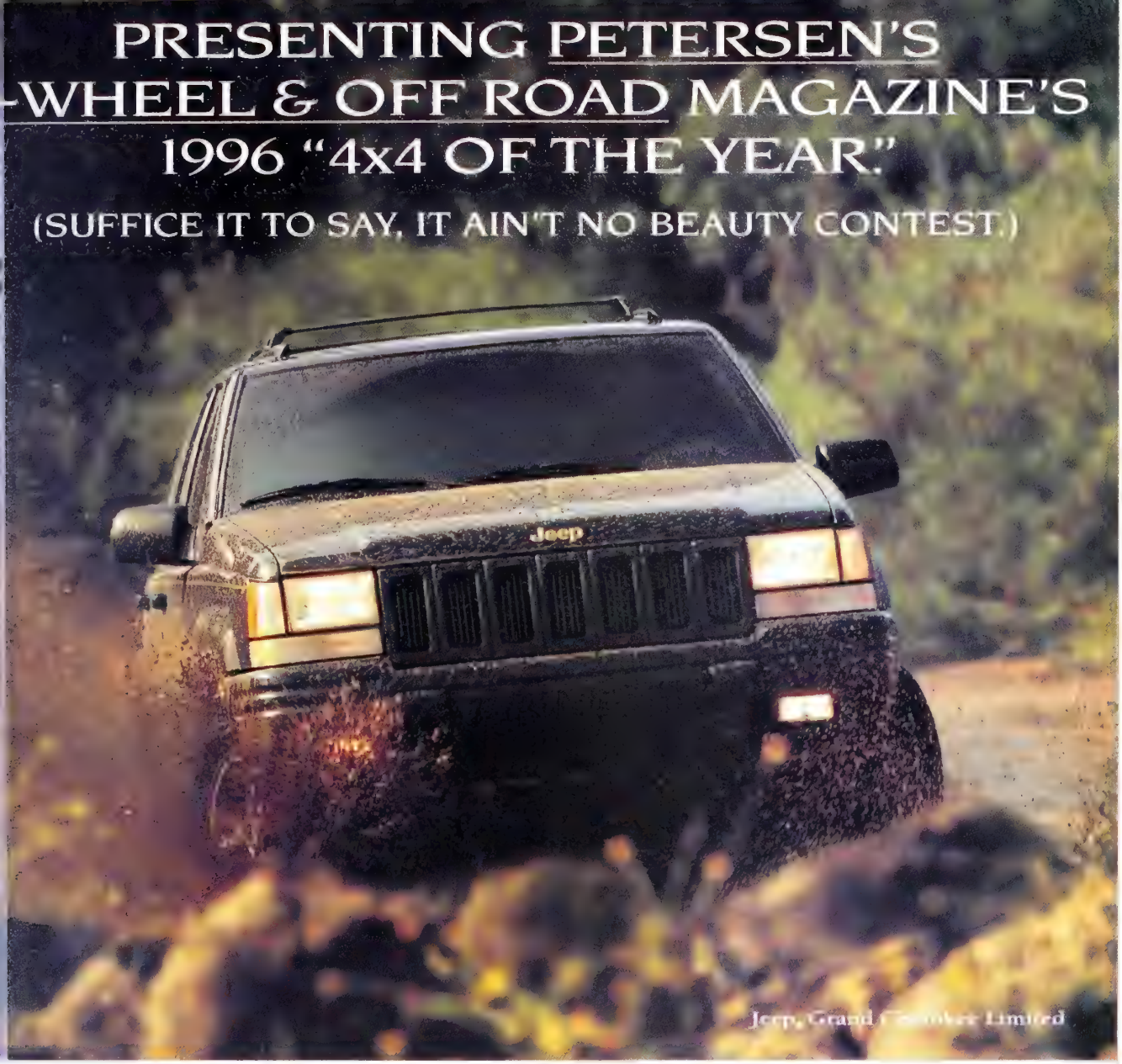
AT LOTUS: *Early Christm*

many Lotus programm expressed uneasiness ab working for a corporate me lith. Predictions of wholes departures were rife. But dangling the bonuses a leaving the hackers alone, has suffered few defecti Top programmer Ray O indicates he'll stay at least other year. Another conce Will Lotus' sales force con ue to stay intact in 1996? though most of the salesp ple aren't covered by special bonus, they get ye end commissions.

In the past three mont a bunch of top execs ha left, including Chairman Manzi. While the compa can manage without most them, the sales and softw folks are essential to me ing IBM's demand that Lot Notes boost its already d inant market share in gro ware (now 69%). Lotus pl to slash Notes prices a make the program more ternet-friendly. *Paul Ju*

PRESENTING PETERSEN'S 4-WHEEL & OFF ROAD MAGAZINE'S 1996 "4x4 OF THE YEAR."

(SUFFICE IT TO SAY, IT AIN'T NO BEAUTY CONTEST.)



LEASE GRAND CHEROKEE LAREDO FOR ONLY $349 A MONTH*
FOR 24 MOS. WITH ONLY $2650 DOWN.

It got ugly at times. But when the mud settled on *4-Wheel & Off Road* magazine's 1996 "4x4 Of The Year" contest, the new Jeep Grand Cherokee Laredo V8 came out the clear winner.

It should have come as no surprise. Jeep Grand Cherokee Laredo has an available 220 horsepower V8 engine, the most powerful in its class;** standard ABS, and dual air bags.† Add to that the legendary off-highway performance of an optional Quadra-Trac® four-wheel drive system that detects wheel slippage and transfers power to the wheels with the most traction and you'll see that this contest was, in reality, no contest.

Of course, the beauty of it all is that you can drive this off-highway leader for a very down-to-earth lease price. Then not only will you have the judges' opinion that this is an exceptional vehicle but you'll have your own.

Jeep

THERE'S ONLY ONE

*For qualified lessees. Based on MSRP with 26X option pkg. Assumes $1500 dealer participation. Title, taxes, license, and insurance extra. Up front: $2650 down, no.'s pmt., and $400 deposit. Monthly pmts. total $8370. Pay for excess wear, $0.15/mi over 24,000 mi., and $275 fee if vehicle returned at end of term. Option to buy at lease end at pre-negotiated price. Offer ends December 31, 1995. Dealer prices may vary. **Source of Class: *Automotive News* 10/95. †Always wear your seat belt. For more information, please call 1-800-925-JEEP. Jeep is a registered trademark of Chrysler Corporation.

Up Front

FAST PITCHES

KICK THE TIRE, BUT NOT THE SALESMAN

TO SOME, THE TERM "USED-car salesman" means a slippery glad-hander who lies about his clunkers' defects. But used-auto folks themselves say honesty is vital to doing business. In a recent poll of salespeople, insurance agents put the highest premium on honesty, with used-car types next. Dead last: stockbrokers.

Why the differences? The level of personal contact may be a factor. John Pottridge, a vice-president of the National Association of Professional Insurance Agents, says policies usually are sold by people active in the community who need to build trust with neighbors for future sales. And car dealerships like to bring back buyers for trade-ins.

But a lot of stockbrokers do their work phoning prospects they don't know, says ex-insurance salesman Robert Shook, who did the survey. Securities Industry Assn. spokesman James Spellman demurs, arguing that most brokers have longstanding ties with clients, too. He cites a Yankelovich Partners poll that finds just 3% of investors dissatisfied with their brokers. □

Honesty In Sales Reps

Poll of 2,000 salespeople. Question: Is honesty important in your job?

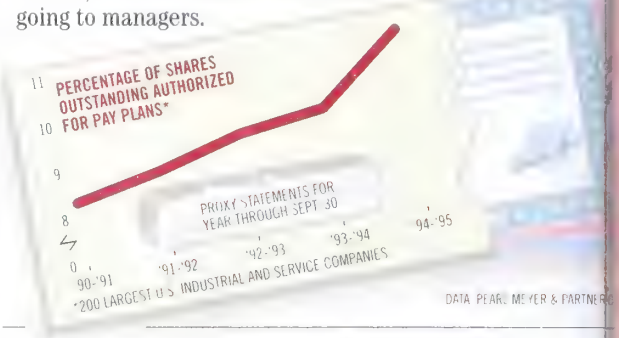
	PERCENT SAYING YES
INSURANCE	88
USED CARS	82
NEW CARS	78
REAL ESTATE	75
APPLIANCES	54
STOCKS	52

DATA THE SHOOK SALESPERSON SURVEY

THE BIG PICTURE

MORE STOCK FOR PAY

A bigger chunk of a company's stock is going to executive p signaling that more boards are tying managers' performanc to company performance. Leading sector: brokerage houses, with 18.7% of overall shares going to managers.



SHOW BIZ

101 DAMNATIONS AT DISNEY

WILL BOYCOTTING MICKEY Mouse work? The American Family Assn., which has mounted consumer boycotts in the past, wants people to stay away from Walt Disney products. The flash point for the conservative group, which is joined by the Florida Baptist Convention: Disney's giving health insurance benefits to gay employees' partners. Among other gripes are alleged subliminal sexual messages in *The Lion King* (which Disney denies). Disney says it's simply treating all workers equally for health care.

But previous boycotts along the same lines have made little, if any, measurable impact financially. AFA says its four-year boycott of Kmart—due to *Playboy* and similar mags being stocked by the chain's Waldenbooks and Borders bookstores—helped push the retailer into selling the book units recently. Kmart says that was done purely to focus on its ailing core business. Per-store sales rose 20% at Borders and 5% at Waldenbooks during the period.

The boycotters have been slightly more effective pressuring companies to watch where they advertise. AFA mounted a 1993 boycott of S. C. Johnson & Son for running ads on such shows as *Law & Order*, objecting to perceived sex and violence. They stopped after the home products company pledged to better screen what episodes it places ads on. Yet it hasn't dropped any of the shows. *David Swafford*

BOYCOTT: *Might not fly*

I-WAY PATROL

RINGING IN '96 ON THE NET

GET READY FOR NEW YE Eve on the Net. Using tal video and audio techn gy developed by Xing T nologies, Web party sur will see and hear the des of the ball in Times Squ as well as firsthand views video cameras on the sc

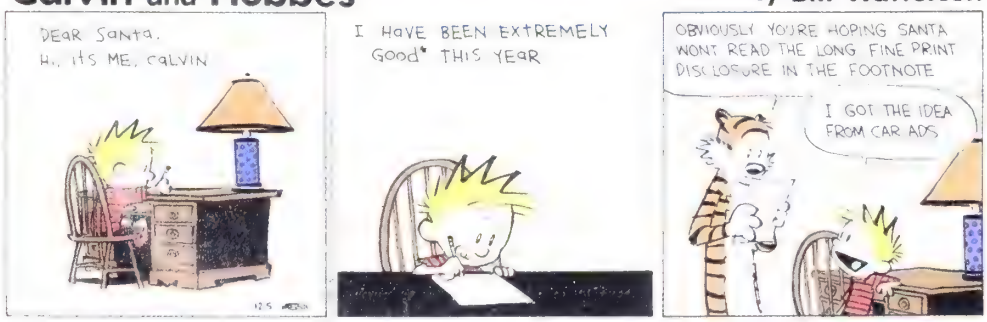
What's the difference tween watching the co down on TV and on your Interactivity. Internetters ing Netscape's Web bro ing software can pick an four different video cam scattered around Ti Square. The site might have live videoconferen capabilities, connecting pa goers at Times Square those at trendy Internet fee houses.

The Times Square B ness Improvement Dist commissioned a media sulting firm, Imagee Group, to build the Web as an experiment for the millennium blast as turns to 2000. Direct Netscape Web browse *http://www.times-square.o*

DRAWN & QUARTERED

Calvin and Hobbes

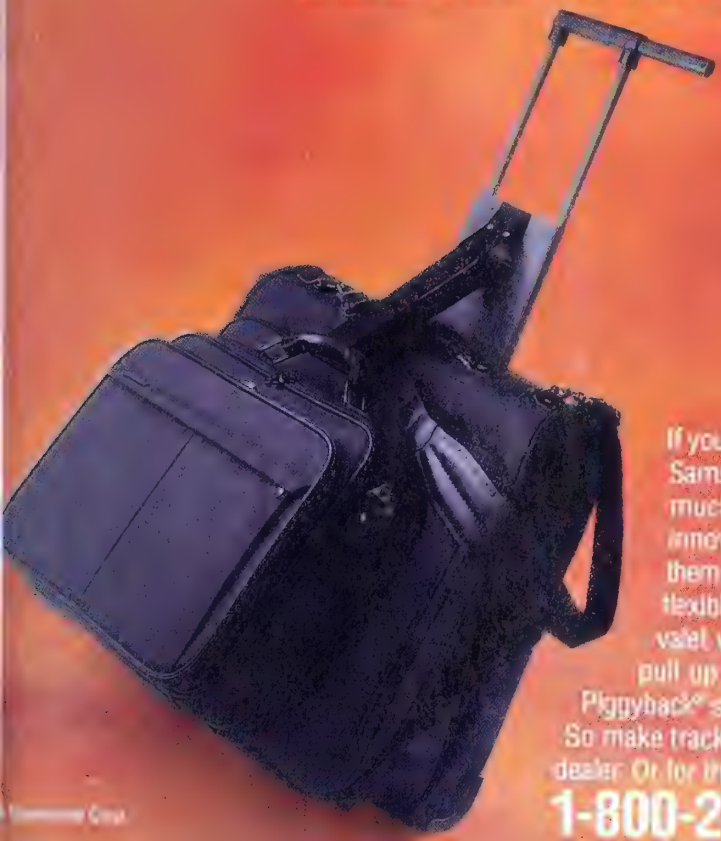
by Bill Watterson



FOOTNOTES Passengers who have tried to spot their home from a plane: **45%**. Of those, **29%** have seen it

VE HAVE A SERIOUS HANG-UP.

WITH WHEELS.



If you carry a garment bag, we have a problem. The new Samsonite® Ultravalet™ Garment Bag with Wheels is too much efficiency to shoulder. We've packed in all the innovative features of our classic Ultravalet and made them mobile. A unique "squishable" design makes the bag flexible enough to fit in most overhead bins. The Ultravalet with Wheels can even carry your extra bags. Just pull up the retractable handle and pull out the patented Piggyback® strap. Don't worry about overpacking—roll with it. So make tracks for your nearest dealer. Or for the wheel story, call

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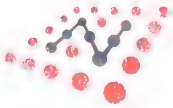
COMPAQ



Novell

SED TO BE INSURMOUNTABLE, ISN'T.

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Readers Report

PRESENT AT THE CREATION OF THE NET

"The software revolution" (Cover Story, Dec. 4) was timely and informative—of great use to millions in various stages of trying to understand and/or participate in the Internet evolution.

A notable omission is the potential role of the communications sector. What happens if AT&T buys out Netscape Communications Corp.? What about the cable industry? We all have several potential Internet appliances in our homes now, and they aren't computers. While a telephone with a screen may perform a mini-applet, either that incoming "wire" or the one to the back of the TV could be the dominant conduit for most of our "highway" activity.

A. A. Sokoloski
McLean, Va.

The Internet is developing rapidly and will no doubt spawn great changes in computing. But your article glosses over some major obstacles to this "new paradigm." Even if most PCs were equipped with the fastest modems (28.8 bps), downloading even small programs would still be time-consuming. Many of the hardware requirements for a new computing model will not be in place in the foreseeable future.

Your article also fails to address certain questions. For example, will most computer users really prefer scaled-down generic software that must be retrieved from the Internet each time it is used? Will a pay-per-use system requiring Internet access ultimately be cheaper for the consumer over the long run? What sort of fees will the new software providers charge?

There may be a sizable market for this style of computing, just as there is a large market for inexpensive cars with fewer features. But don't read too much into it just yet.

Mark Fleming
Seattle

If you think about it, the model la[illegible] Sun Microsystems and IBM are recom[illegible]mending—using a dumb Internet ap[illegible]ance and depending on a central [illegible]ware server—is not much different [illegible] what we had to use in the old day[illegible] mainframes. The model might wor[illegible] we had cheap, high-speed connect[illegible] available from our homes, but the in[illegible]structure isn't in place and prob[illegible] won't be anytime soon. Cable may e[illegible]tually offer high bandwidth, but r[illegible] now the system is set up to tran[illegible] data only one way, and it's going t[illegible] very costly to modify it so that it [illegible] handle computer traffic.

I don't know about you, but I c[illegible] expect to junk my PC anytime soon[illegible]

Mike McGo[illegible]
Pho[illegible]

DEJA VU?

"Using a dumb Interne[illegible] appliance and depend[illegible]ing on a central software server is not mu[illegible] different from what w[illegible] had to use in the old days of mainframes"

I am not sold on the expectations [illegible] Java as they are described in the ar[illegible] in your magazine. This concept d[illegible] have a future. However, the idea [illegible] the need for a Wintel-like suite is e[illegible]inated when applets are combined [illegible] the information available through [illegible] Web relegates our society to just co[illegible]and-paste. I do hope that we can con[illegible]ue to create—and not just creation b[illegible] few, but many. Creation will need m[illegible] features than simply those in the l[illegible] common denominator.

Tom O'Co[illegible]
Wrentham, M[illegible]

GLOBAL MARKETS OFFERS ITS SIDE OF THE STORY

Your article seeks to cast me as a[illegible] "online penny-stock scam artist" ("[illegible]

Business Week

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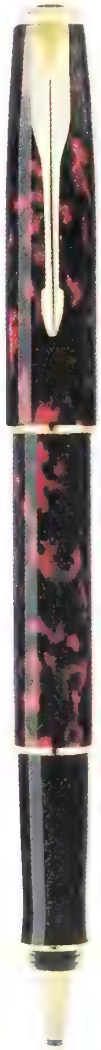

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hustlers queue up on the Net," Finance, Nov. 20).

Let me set the record straight.

My *Global Markets* newsletter is not focused on penny stocks. If the writer had taken the time to have a look at my "current portfolio," he would have seen that 7 of the 16 companies have market capitalizations exceeding $100 million, including four exceeding $500 million, and an additional one at nearly $6 billion; only three could be considered "penny stocks."

In singling out Quigley Corp., I can only say that I am very pleased with the progress that has been made by this "penny stock" since the time that I recommended it. They are just now turning the corner to profitability after several years of research and development.

[As for the quote that suggests I ask companies to sponsor my newsletter,] after an issue is printed and mailed to my paid subscribers, a copy is then sent to the recommended companies. Rather than sell reprints, I prefer an arrangement whereby they simply pay for the postage of a mailing to prospective subscribers at my end, in exchange for earning the right to make reprints at their end for free. This kind of "cooperative advertising" has been around for years. Whether or not they take advantage of this opportunity ha no reflection on their being recomm ed, because my paid subscribers already received their copies and m primary interest is seeking capital gi for them.

Excluded was the fact that onlin vestors accessing my web site download a free directory of sev hundred Internet sites. Their cor varies, but, contrary to the writer's clusion, most of the recent new have been set up by well-respecte nancial institutions.

Richard A. Sa
E
Global Ma
Morrisville

Editor's note: BUSINESS WEEK bel the quote attributed to Sauers accu ly reflects what he told our reporte

CORRECTIONS & CLARIFICATIONS

"Asia's new giants" (Special Report, Nov. 27) gave incorrect revenue figures for two companies. Philippine Long Distance Telephone's operating revenues rose 8.5%, to $850 million. San Miguel Corp.'s revenues rose 12%, to $2.6 billion. Also, the report should have said that Taiwan Semiconductor Manufacturing Co.'s president has a handful of Taiwanese with American engineering degrees working with him, not MBAS.

"VTEL has lots of people talking" (Inside Wall Street, Nov. 27) should have said that VTEL dominates the education and health-care markets in videoconferencing.

"These bugs make manna—and mow down weed trees" (Developments to Watch, Nov. 27) should have said that one of the locations where manna scale insect egg sacs are expected to be released next spring is the area along the Rio Grande in New Mexico.

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We were disappointed that you cent report on our mining operati Irian Jaya did not provide a more plete account of our extensive efi to provide economic and social ben for the people of that region ("Gold

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ew Guinea," International Business, 20).

eeport-McMoRan Copper & Gold has invested more than $3 billion in project, including the construction of s, health facilities, and schools. So- welfare spending alone has aver- about $14 million a year, and our ts have resulted in a substantial ne in infant mortality and malaria. expectancy among the native ngme and Kamoro tribes, described our article as "...just emerging the Stone Age," has also increased ficantly.

me of these local people are under- lably uncomfortable with the major ge they are now encountering and confused by development and th. The vast majority, however, are ed about the chance to build a bet- uture for their children and their nunity.

s you note, the land-rights issue has ented a significant challenge because Amungme have no concept of indi- al land ownership. We believe that commitment to community devel- ent rather than individual compensa- represents an effective solution that ides maximum benefit for the ngme people. As with any new con- our effort requires periodic refine- . We are continually working with tribal leaders to resolve differences in a way that is fair to all.

Finally, we have established a state-of-the-art environmental program that adheres to the highest standards and has received all permits from the Indonesian government. The program includes impact studies and a strong management and monitoring plan.

Planned and operated with the best expertise available, our project has been visited regularly by representatives from the global mining industry, commercial banks, the investment community, and government officials. All who have seen it regard it as a model for development in an emerging country. I am personally proud of our accomplishments and our sense of responsibility, as are all of our people here at Freeport-McMoRan Copper & Gold.

Richard C. Adkerson
Executive Vice-President
Chief Financial Officer
Freeport-McMoRan Copper & Gold
New Orleans

A COMMENT ON 'NO COMMENT'

"The unlikely mogul" (Cover Story, Dec. 11) quotes Children's Television Workshop as having "no comment" on an allegation that TCI had rejected CTW's offer of a new cable program. I spoke with your reporter in preparation for this article and categorically denied the rumor. I had plenty to comment on and made myself clear that the episode in question never occurred.

Gary E. Knell
Senior Vice-President
Children's Television Workshop
New York

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T SO TOUGH

agine that it's 1955 and you're asked predict which Asian economies will eed and which will fail. Atop any- list of big losers would likely be a and Taiwan: The former was dev- ted by its war with North Korea, the latter was little more than a protectorate for the losers in Chi- civil war. In both places, popula- tion density was high, as was illiteracy. Sav- ings were low, and ar- able land was scarce.

SIA
ING

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OHWER

Today, of course, both are classed among the Asian tigers, boast- ing arguably the best economic performances in the world over the past three decades. Their ascendancy, along that of other Asian dynamos, is subject of *Asia Rising* by Jim Roh- a former reporter for *The Econo-* and now the director and chief omist in Asia for CS First Boston. one seeking a comprehensive look at these economies have been so re- kably successful—and why they're y to stay that way—will find this a valuable read. But if you're look- for particulars that explain how companies will benefit from this n, you'll be disappointed.

hile a lot of the data and studies by Rohwer is already well-known olks in the field, his highly read- analysis of regional trends repre- s a big contribution. How did East pull off its economic miracle? Roh- credits the region's predominantly oritarian regimes, which pursued rt-driven policies to jump-start their omies. True, many of these govern- ts were hardly friends of liberty. they focused single-mindedly on economic development, remaining une to "the wheedling of the spe- interest lobbies" that are so perva- in the West, the author argues. se regimes wisely invested in pri- y and secondary education, creat- highly productive workforces. And a bination of low taxes, high interest s, and other measures helped boost

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Such broad assertions offer l... that's new. With Boeing Co. and ... U.S. high-tech workers grumbling a... jobs moving to Asia, a book laying ... just how much America is gaining ... investments there would have been ... ticularly useful. Also, Rohwer is up... about Asia's boom at a time when r... analysts are asking whether there ... limits to growth in a region faced ... shortages of skilled labor, weak ... agement structures, flagging infras... ture, and skyrocketing costs.

That said, executives heading for ... would do well to read this book. The ... thor's knowledge is broad, and he g... readers a good sense of the region's ... namism. Asia's rise, says Rohwe... "the greatest, and most thrilling, e... of the last half of this century." ... betting that the next phase of deve... ment, though more challenging, will ... "turn out to be one of greatne... Asians certainly hope he's right.

BY JOYCE BARNAT...

Barnathan is BUSINESS WEEK'S H... Kong Bureau Chief.

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7 **GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • $11.95) *A Harvard team's step-by-step guide to conflict resolution.*

8 **J.K. LASSER'S YOUR INCOME TAX 1996** by the J.K. Lass Institute (Macmillan • $14.95) *Hey, April 15 is just around the corner.*

9 **THE WALL STREET JOURNAL GUIDE TO UNDERSTANDIN MONEY AND INVESTING** by Kenneth M. Morris and Alan Siegel (Fireside • $13.95) *Concise explanations enriched with graphics.*

10 **THE FIFTH DISCIPLINE** by Peter Senge (Currency • $18.0 *Creating the "learning organization."*

11 **THE WEALTHY BARBER** by David Chilton (Prima • $12.9 *Don't get clipped—invest 10% of your pay, then cut debts*

12 **ZAPP!** by William C. Byham PhD with Jeff Cox (Fawcett • $10) *How "empowerment" revved up employees at the fictional Normal Co.*

13 **THE ONE MINUTE MANAGER** by Kenneth Blanchard PhD and Spencer Johnson M.D. (Berkley • $9.95) *Three management techniques, conveyed in brief story form.*

14 **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • $16.95) *Lighthearted primer.*

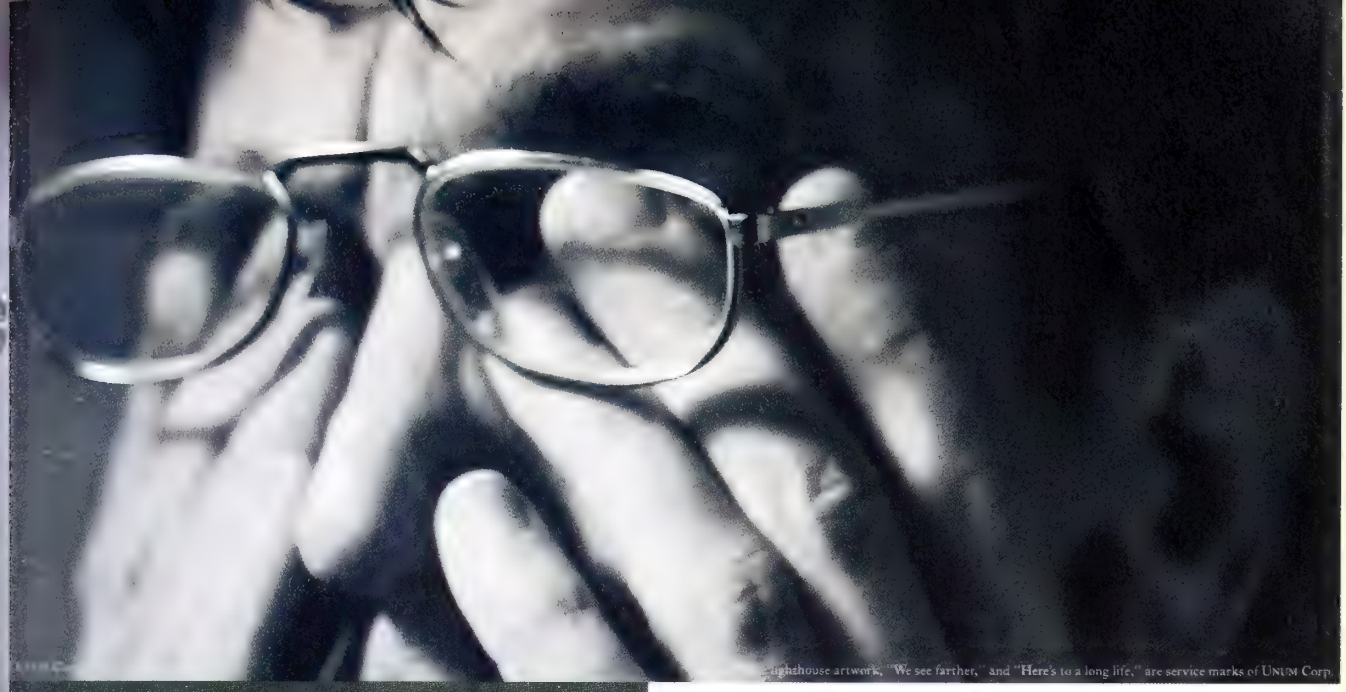
15 **SOROS ON SOROS** by George Soros with Byron Wien and Krisztina Koenen (Wiley • $19.95) *Financial tips and political philosophy from the "world's most powerful trade*

The BUSINESS WEEK Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on econom management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are re sented. Current rankings are based on a weighted analysis of unit sales in November.

HOT TYPE "They talk of the dignity of work. Bosh—the dignity is in leisure," observed Herman Melville. Be that as it may, most Americans find few ego rewards in being out of a job. And, according to Richard Nelson Bolles, as job hunters cast about for new positions, a sense of personal worthlessness—or "rejection shock"—can set in, representing a serious hurdle. It's an insight that has drawn generations of readers to Bolles's *What Color is Your Parachute?* (Ten Speed Press, $14.95), making it a perennial best-seller. This month, it's No. 4 on BUSINESS WEEK's paperback Best-Seller List.

The 1996 *What Color* is the 26th edition of the book—it gets revised every year. But the fundamental insights of the book remain unchanged: You should figure out what skills enjoy using and what jobs utilize those skills—then em winning strategies to land such a post.

Bolles thinks little of want ads, employment agencies blanket résumé mailings. Instead, he favors the pers touch: Approach an employer directly, perhaps using leads en by friends or relatives. But he says it's best to spend beforehand investigating yourself and researching pote employers. To back up its method, *What Color* provides a riety of drills, ranging from "the party exercise," which h you outline your skills, to writing a mini-autobiography. who knows—you could experience a little ego enhancer along the way.



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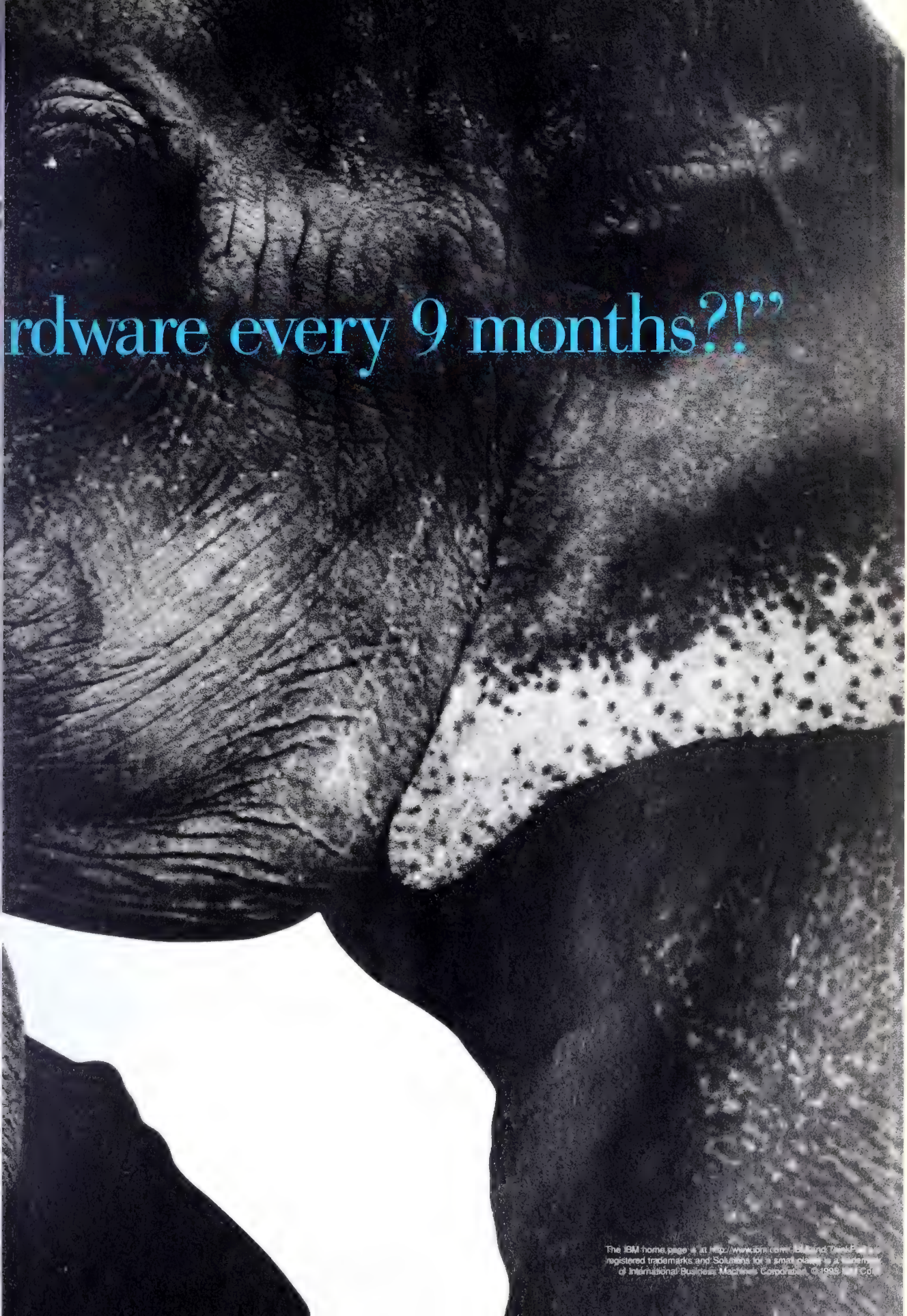
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BY STEPHEN H. WILDSTROM

WHAT WORKS WITH WINDOWS 95?

Be sure to check carefully before you buy add-on cards or software programs

"Some assembly required." Those words, long the bane of parents during the holidays, will be appearing on a lot of the boxes of computer equipment and software that will be opened this season.

Windows 95, which comes loaded on nearly all new Intel-based computers, is supposed to make Windows installations as easy as setting up a Macintosh. Unfortunately, while Microsoft Corp. and the computer makers have done their jobs, the developers of everything from sound cards to entertainment software have been slow in getting with the program. As a result, consumers who aren't extra-careful in their hardware and software choices will face a lot of unnecessary headaches.

PLUG-AND-PLAY. This was brought home to me as I worked with a Compaq Computer Corp. Presario 9564, a 133-megahertz Pentium machine loaded with multimedia features and fully up to the Win95 specs for plug-and-play, which assures that properly designed add-ons are easy to set up. The machine was lots of fun until I tried to connect it to our office network. I put one network interface card in, and it not only didn't work but also killed the sound system. A second card let me have the network or sound but not both. Finally, I popped in a plug-and-play network card and, after a few minutes of setup, I was in business.

The same thing could have happened with any add-on hardware not designed for plug-and-play. I experienced a similar problem installing a sound card and CD-ROM drive on another computer. But feature-laden machines such as the Presario pose an additional challenge because so many of the "resources" that add-ons need are already in use. Making that first network card work was more than either experienced humans—including Compaq tech support—or Win95's special help file could handle.

Unfortunately, plug-and-play hardware remains scarce, and the feature is generally only found on the newest and most expensive equipment. For example, while you can buy a Creative Labs SoundBlaster Pro sound card for as little as $73, the cheapest plug-and-play version is the $155 SoundBlaster 32 PnP. Still, unless you enjoy the high-tech equivalent of skinned knuckles, the extra money is well-spent. While a "Designed for Windows 95" logo is your best assurance of compatibility, I've found that components claiming plug-and-play compatibility generally do fine.

LOGO CHECK. The software situation is murkier. Most products I've seen lately claim that it is "Windows 95 compatible" or "Windows 95 ready." This is meaningless, since nearly any program that ran with Windows 3.1 or DOS will run with Win95. But older programs won't let you take advantage of Win95's advanced features, such as long file names or CD-ROMs that start up when popped in a drive. In addition, true Windows 95 programs are generally a good deal less crash-prone than the older versions.

My advice? Look for the boxes carrying Microsoft's "Designed for Windows 95" logo. Although home users don't need all the features required for the logo, the words "designed for" are the only way to identify a true Win95 product. And that's worth looking for. Because true Win95 software won't run on the still dominant Windows 3.1, many developers are including versions for both varieties of Windows (and sometimes a Mac version, too) on a single CD-ROM. Windows 3.1 users should check out any software with the Win 95 logo to make sure it will run on their systems.

By next fall, plug-and-play hardware and real Win95 software should become pervasive, as old programs are rewritten and old hardware inventories are used up. If you can't find compatible products now—wait. You'll be glad you did.

BULLETIN BOAR

ORGANIZERS

DIGITAL DICTATES

Electronic organizers are great. But when you're on t go, it would be nice to be a to record a quick verbal no If you feel that need, a digi voice recorder such as Tota Recall from Sycom Technol gies Inc. (1 800 773-2503) may be just the thing. The

diminutive device, about th size of a garage-door open weighs 3.5 ounces with bat teries. The basic unit costs $150 and holds 11 minutes information in memory; oth models hold up to 47 minutes. To record, push a butt and start talking. Retrieve messages by time of record ing or scan them. You can also tag a message to sour an alarm at a preset time.

INTERNET

TEST-DRIVING JAVA

Want to see for yourself wh all the excitement about Su Microsystems Inc.'s new Ja language is about? If you have access to the World W Web, take Java for a spin b downloading Netscape Com munications Corp.'s Naviga 2.0 beta test edition from http://home.netscape.com. Versions are available for a flavors of Windows, Mac, a Unix. Once the browser is in stalled, click on the Java h link to get access to such i teractive test "applets" as tic-tac-toe game (you can beat the computer) and a paint program.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

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BY ROBERT KUTTNER

BUDGET CUTS: LET THE VOTERS DECIDE

SENSIBLE: Clinton and the GOP should make a one-year deal and let the '96 election reveal where the public wants the ax to fall

President Clinton has now met congressional Republicans more than halfway. He has agreed to a seven-year timeline to a balanced budget as well as significant cuts in social outlays. He has even accepted the Congressional Budget Office's economic assumptions, with his own budget analysts at the Office of Management & Budget acting merely as consultants.

However, the two parties remain far apart on the details of how to achieve the cuts. The GOP wants much steeper reductions in Medicare, Medicaid, income support, and education funding as well as fundamental changes in the structure of entitlements. Republicans also want larger tax cuts, with the biggest breaks tilted toward the upper brackets—making balancing the budget that much more difficult. Based on the latest economic forecasts, there is about a $300 billion to $350 billion gap between the Clinton budget plan of Dec. 7 and the Republican plan that the President vetoed. The Republicans seem willing to accept little more than total surrender on Clinton's part.

BALANCING ACT. There's an outside chance that the two parties will be able to reach agreement before Christmas. If not, the government will lurch from one short-term funding crisis to another. Yet there is a sensible alternative, one that makes more sense with each passing day: The President and the Republican Congress should agree to a one-year budget deal to keep the government running for fiscal year 1996 and leave the details of the six remaining years to voters.

After all, both parties now support the same fiscal goal of a balanced federal budget by 2002. But there are fundamental ideological differences over which path to pursue. Republicans have interpreted their narrow 1994 congressional win as a mandate for sweeping change. Yet as voters have become more familiar with the details of the Republican contract, support for it has plummeted in the polls.

American voters evidently do not want sweeping changes in Medicare and Medicaid and major cuts in education aid. Surprisingly, most voters would even give up a tax cut in order to achieve a balanced budget. As we head into an election year, it makes far more sense to spend 1996 debating the two competing paths toward budget balance rather than either careening from one stopgap crisis to another or locking in a seven-year ca

The longer the clock runs without a se year accord, the greater the likelihood Congress will back into a one-year deal. cause the Republican plan defers the hars cuts until the last two years of the seven-y plan, Clinton can embrace nearly all of t 1996 cuts without sacrificing much. It w be sensible for him to do just that—and t the more fundamental questions to the vot Clinton has already signed appropriations representing 64% of 1996 discretionary sp ing. So a big part of a one-year deal has ready been accomplished.

PARTY DISCIPLINE. This year's budget debat the most consequential change in the fed role in more than 60 years. Perhaps a mas federal retrenchment is what the voters t want. Perhaps not. But with the execu branch controlled by one party and Congres the hands of another, the presumed mandate such sweeping revision is in doubt. There each party should take its brand of budget form to the country, and the 1996 elec should serve as a popular referendum.

More than any election in recent mem the midterm election of 1994 "nationaliz American politics. Republicans offered a herent party program, with Newt Gingri Contract With America the manifesto. result was almost parliamentary—a deg of party discipline seldom seen in U.S. p tics. In 1996, the other shoe will drop. We expect the two parties to campaign on r cally different approaches to the role of g ernment in American life and on the rout fiscal discipline.

As the 1996 election draws nearer, "mandate" of 1994 recedes. It is presump ous, in an election year and with a divi government, to lock in a seven-year bud The framers of the Constitution delibera devised restraints on the passions of tem rary majorities. We shall find out next vember whether Gingrich's mandate is tr sient or durable.

By far the best outcome would be a cl election win for one party or the other. voters could then hold the governing party countable for the results. With divided g ernment, we have the worst of both world— interminable wrangling, passing of blame, escalating voter cynicism. And if voters g us divided government for the rest of decade, God save the Republic.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

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[1]*Kiplinger's Personal Finance Magazine* measured the volatility of 118 general international stock funds for the one-year period ended 7/3/95 on a scale of 1 (least volatile) to 10 (most volatile). Volatility is based on standard deviation of total return. [2]Lipper Analytical Services, Inc. rankings and fund performance figures are based on total return, including reinvestment of dividends and capital gains for the stated period. Lipper ranked Janus Worldwide Fund #19 out of 115 global funds for the one-year period ended 9/30/95. Past performance does not guarantee future results. Your return and principal value will vary, and shares may be worth more or less at redemption than at purchase. Funds distributed by Janus Distributors, Inc. Member NASD.
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JANUS FUNDS
[$23 billion in assets]

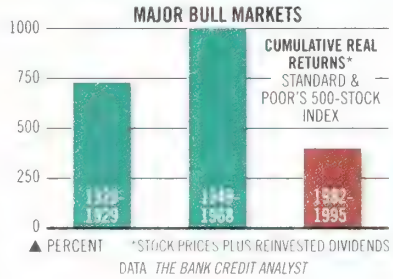
BY GENE KORETZ

WALL STREET DEBATES ITS FATE

Is it really different this time?

To some observers, this year's sharp runup in stock prices, on the heels of the booms of the 1980s and early 1990s, bears eerie similarities to the euphoria that prevailed in the late 1920s and late 1960s. To others, it heralds the emergence of a new economic era that spells continued strong equity gains.

If the first group is right, the third great bull market of this century could be drawing to a close. And the risks are growing of an extended market slump, such as those that slashed stock prices by 80% and 57% in real terms in the wake of the two earlier bull markets of the twentieth century.



In a recent study, economist Martin H. Barnes of *The Bank Credit Analyst* concludes neither view is valid. "A correction may be overdue," he says, "but a major bear market is not yet in sight."

To be sure, Barnes spies numerous signs of "speculative froth" in the market. There are now 40% more bond and equity funds, for example, than there are stocks on the New York Stock Exchange. Margin debt recently climbed above 1% of gross domestic product—exceeding the previous postwar cyclical peak reached just before the 1987 market crash. And cash reserves of equity funds are close to a 20-year low.

Other possible signs of excessive optimism include the record pace of mergers and acquisitions, the growth of personal finance magazines, and the public adulation of successful investors such as Warren Buffett. Indeed, the very claim that the stock market has entered a new era echoes similar views voiced with passionate conviction by market bulls in the late 1920s and late 1960s.

On the other hand, Barnes notes that both the equity share of household financial assets and the value of new stock issues as a percent of gross domestic product are still far below previous peaks. And despite the "new era" hype, almost as many investment advisers are currently bearish as are bullish.

Although the current dividend yield of stocks is very low, Barnes notes that this reflects corporate decisions to forgo dividend hikes and to retain strong earnings. Indeed, his analysis of current price-earnings ratios and recent earnings trends indicates that investors are not anticipating any major earnings acceleration in the years ahead.

More important, Barnes points out that major bull markets typically end when speculation and optimism are rife in the face of an increasingly restrictive monetary squeeze. In light of today's low inflation and sluggish economy and the likelihood of further monetary ease, he predicts that "while the 1980s-to-1990s bull market may stumble, it still has some distance to run."

PAVEMENT POUNDING 101

It's still a tough course for grads

College students graduating during the current academic year face a modestly improved but still difficult job market. According to employers surveyed by Michigan State University's Collegiate Employment Research Institute, hiring of new grads should rise by 4.7% this year, a bit less than in 1994-95. But that still leaves hiring levels far below their 1989 peak.

"Job hunting will remain tough, unfriendly, and quite competitive," says CERI Director L. Patrick Scheetz.

Average starting salaries for new graduates with bachelor's degrees will be up just 1.4% to 2.9% this year and are projected to run from a low of $20,154 for journalism majors to a high of $41,182 for lucky chemical engineers. The average starting pay for newly minted MBAs: $40,425.

CLASS GAPS WIDEN IN BRITAI

The middle is hurting

The same trends that have weake America's middle class since the 1970s are apparent in Britain, conte economist Frederick R. Strobel of University of South Florida in the rent issue of *Challenge* magazine.

From 1979 to 1992, notes Strobel, top 20% of British households increa their share of total household inco by eight percentage points, to 4 while the shares of the bottom 20% the middle 60% fell by four percent points each. The biggest gains w posted by the top 5%, whose inco share from 1979 to 1989 rose by m than 25%, to 15.3% of total income.

Developments adversely affect Britain's middle class, says Strobel, clude a 38% drop in factory empl ment since 1980 and a sharp decline unionization—from over 50% of workforce to about 37%. A merger-a acquisition boom has also eroded jo

One big difference from U.S. inco patterns is that British wages h managed to outpace inflation over past 20 years—a development that St bel attributes to its low level of im gration and higher (though reduced) l el of unionization. Like Germany France, however, Britain has had to a price for its real wages gains: an employment rate significantly hig than America's.

OLD FURNISHING FOR NEW DIGS

A sales surge that never came

Here's a puzzle: Although sales new and existing homes soa some 22% between April and Septe ber, sales of furniture, appliances, building supplies—which usually clos echo home purchases—actually slow

One explanation proposed by C bank's *Economic Week* is that many cent home buyers have been people w just barely managed to qualify fo mortgage with the latest drop in mo gage rates. Such purchasers, say t bank, may not have had much left o to spend on extras. And sluggish come and job growth may be prompt other recent home buyers that do h the wherewithal to hold off until t economic outlook brightens.

IT'S NOT IF, I

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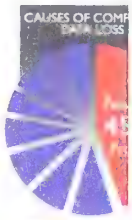

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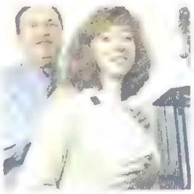

hardware damage) are literally powerless to protect your PC from data loss.

That's why you need instantaneous battery backup power from an APC Uninterruptible Power Supply to prevent keyboard lockups, data loss, and crashes. With an APC UPS, you get six times the protection of a high-end surge protector for little more than twice the price. And $119 is much less expensive than false peace of mind.

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Bulletproof your PC with APC's full line of protection

If you're strictly concerned about protecting your hardware from surges alone (or are protecting nonvolatile applications such as home electronics, laser printers) choose from APC's SurgeArrest series. APC's surge suppressors provide the highest performance in their class on IEEE's qualifying tests, and feature APC's exclusive SafeShield design for safe protection backed by a lifetime warranty. No wonder PC World recommends SurgeArrest for maximum protection.

For full protection, choose from APC's line of Uninterruptible Power Supplies. For 386 class machines, choose from our 250 Volt-Amp models. For 486 and Pentium, opt for 400VA or 600VA. Recommended models give between 8-10 minutes of battery backup, however if you desire more runtime, simply choose the next larger model. For sites with chronic bad power, opt for our "PRO" models.

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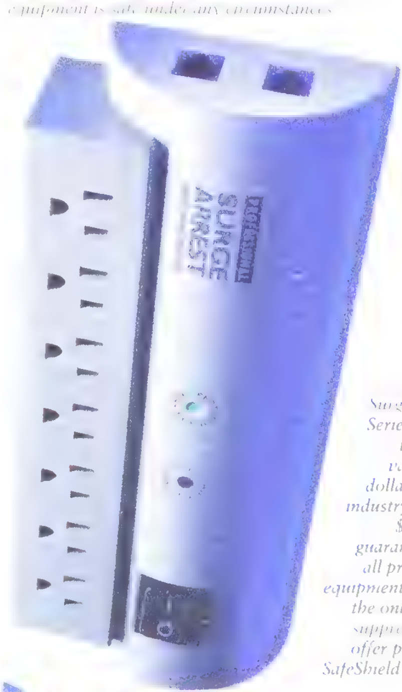
... been granted U.S. Patent # 342,055. In addition to a multistage protection package, SafeShield's design provides fail-safe fusing which ensures fire safety, and catastrophic event protection to ensure that ...



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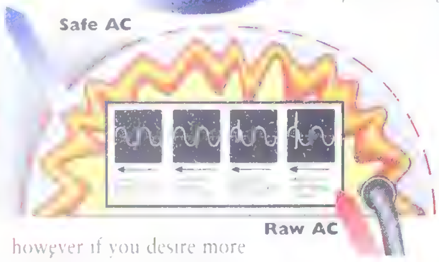

Protect yourself or kick yourself...

It's been said that there are two types of computer users: those who have lost data, and those who are about to. Prevent the single largest cause of computer problems and join a fast-growing third category: those who protect their PC's with the most reliable protection they can buy: APC UPSs.

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JAMES C. COOPER & KATHLEEN MADIGAN

EAVY INVENTORIES HAVE HE ECONOMY BREATHING HARDER

U.S. ECONOMY The frigid weather that made an early appearance across :h of the U.S. has raised fears that this winter ld be especially brutal. Early 1996 also could see a l in the economy—one brought by a prolonged in- tory adjustment, not plummeting temperatures. ıs more data filter in, it is becoming clear that the ober slowdown was no fluke. The fourth quarter is ping up to be more sluggish than the third quarter's op. The mix of the data also suggests that the ıkness is likely to carry over into the first quarter.

Hiring is slowing—and factory payrolls are shrinking outright. Businesses are dealing with higher inventory levels than they probably want, and housing demand is running out of steam. At the same time, consumer buying, though rising, doesn't exhibit the vitality that warms retailers' hearts. One reason: Consumers are carrying a ɔrd amount of installment credit.

A TOUGH QUARTER FOR RETAILERS

COMMERCE DEPT., BW

'he imbalances evident in the economy are not sig- :ant enough to reverse the expansion. As long as a lible budget deal is worked out in Washington, a re- sion is not in the cards for 1996 (page 64). Howev- growth in the current quarter and the next will not very strong. In particular, demand isn't rising very :kly, so output growth will ease back until inventoı are more manageable.

OPPERS PICKED UP THE PACE a bit in Novem- , but the contribution of consumer spending to rth-quarter economic growth still looks only modest. Retail sales rose a solid 0.8% in November, led by ıiture, building materials, and a rebound in apparel. wever, the gain followed declines in both September October, and the *Johnson Redbook* survey of re- ers through Dec. 9 showed weak December sales. en if December buying rises 0.5%, fourth-quarter es will increase at an annual rate of only 1.7% art). That would result in the weakest fourth quar- for retail sales in four years.

Because of steep discounting, however, real retail es—and thus overall consumer spending—for the ırter will look somewhat healthier. Retailers' prof- may suffer, though. In November, the dollar value sales was up only 3.2% from a year ago, a weak showing for this crucial time of year for retailers.

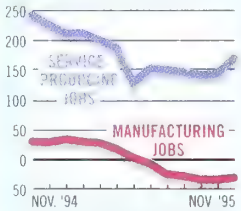
Shoppers' restraint can be traced to two fundamental factors for consumer spending. One, job growth has slowed in the second half. And two, some households are running into credit problems.

Nonfarm payrolls increased by 166,000 in November, but the Labor Dept. cautioned that the top-line number was distorted. An extra week between survey periods and new seasonal factors added 69,000 jobs. Unemployment edged up to 5.6% from 5.5%.

Job growth so far in the second half has slowed to a monthly average of 123,000, down from a 154,000 pace in the first six months. As usual, the weakest job market is at the factory (chart). Jobs there fell by 32,000 in November, the seventh loss in the past eight months.

Hours worked in manufacturing, however, held steady at 41.5 hours, with a hefty 4.4 hours in overtime. The long workweek suggests that gains in industrial production are coming from increasing productivity, not from adding more workers.

WHO'S HIRING, WHO'S LAYING OFF



DATA: LABOR DEPT., BUSINESS WEEK

Not all the labor-market news is downbeat. Service payrolls continue to expand, with 197,000 jobs added in November. The 74,000 gain in retail trade was exaggerated by the seasonal-adjustment process, but even excluding store jobs, service payrolls rose a healthy 123,000.

As a result, income growth remains sufficient to support a moderate pace of consumer buying. Wages for nonfarm production workers fell one cent in November, to $11.58 an hour. But compared with year-ago levels, wages are rising by 2.9% so far in the fourth quarter. That's just a hair's breadth above the inflation rate. The growth in hourly pay has been above the inflation rate for three quarters.

THE PROBLEM for some households, though, is that debt is creeping into the danger zone—and some borrowers are falling behind in their payments.

Installment debt jumped by $10.6 billion in October, up sharply from the $4.1 billion gain in September. Assuming a 0.5% increase in disposable income for October—the actual data will not be released until Dec. 21—then consumer debt outstanding, now more than $1 trillion, would equal 18.9% of disposable income. That's a record high—surpassing the debt levels of

even the credit-crazed 1980s. And this rise has occurred even before the holiday rush to "charge it."

Not surprisingly, the Mortgage Bankers Assn. reports that 4.24% of mortgages were overdue in the third quarter. That's the second quarterly rise since the delinquency rate hit a 22-year low of 3.91% in the first quarter. In addition, *Bankcard Barometer* reports that credit-card delinquency rates have been rising throughout 1995, hitting 4.38% by the end of November, a 2½-year high.

Slower job growth and credit problems also are contributing to the slowdown in home buying. New single-family home sales fell 2.7% in October, to an annual rate of 673,000. It was the third straight decline, pushing the months' supply of unsold homes up to 6.5 from 5.5 in July.

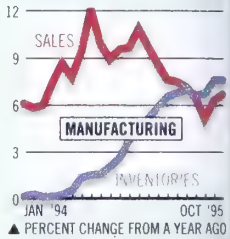
Looking ahead, consumers are likely to concentrate on paying down existing IOUs in the first quarter. That's one reason why household demand will continue to rise at a mediocre pace into early 1996.

AN OUTRIGHT RETRENCHMENT by shoppers is unlikely, but soft consumer demand suggests that the current inventory adjustment may extend into 1996. Manufacturing inventories rose by 0.4% in October, even though factory shipments fell 0.4%. On a yearly basis, inventories have been growing faster than sales for four months now (chart).

Wholesalers also are dealing with excess stock levels. Their inventories increased by 0.7% in October, while sales were down 0.4%. A buildup of extra goods in the distribution pipeline is sure to double back and hit factories in the form of fewer orders. That means slower growth in output later on.

The inventory realignment also means that the November flareup in producer price inflation will sputter out quickly. Producer prices of finished goods jumped 0.5% for all items last month, and by 0.4% when food and energy are excluded.

INVENTORIES REMAIN A PROBLEM



▲ PERCENT CHANGE FROM A YEAR AGO

DATA: COMMERCE DEPT., BUSINESS WEEK

Higher prices for 1996 models of new cars and trucks accounted for most of the runup. But given the so-so demand for motor vehicles, the markups could soon be wiped out by rebates and incentive packages. Even with the November gain, producer prices are up only 2% from a year ago.

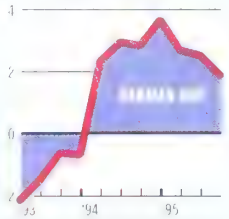
For now, the inventory imbalance does not appear immense enough to cause severe cutbacks in production, but the latest numbers draw sufficient attention to the problem that future data bear watching. Still, as long as demand keeps rising, any chill in the economy should thaw out before the spring.

GERMANY

THAT SINKING FEELING ALONG THE RHINE

Under the weight of a strong mark, heavy taxes, and high labor costs, the German economy is looking surprisingly weak. Not only did real gross domestic product in the third quarter fail to grow, but October and November indicators strongly suggest that fourth-quarter GDP will post an outright decline. Economists are marking down their growth projections for 1995 and 1996.

GROWTH SLOWS TO A CRAWL



▲ PERCENT CHANGE FROM A YEAR AGO

DATA: DRI/McGRAW HILL

Third-quarter GDP in Europe's leading economy showed an unhealthy mix of rising inventories and falling demand, suggesting a budding inventory problem that will weigh on future growth. Recent business surveys already have reported that stock levels are excessive. Indeed, in October, industrial production fell 1.6%, order volume in manufacturing dropped 2.4%, and retail sales posted a sharp 4% drop. Both industrial output and retail sales started the fourth quarter below their third-quarter levels.

With factories now cutting output, the inventory problem seems likely to be corrected quickly. The danger, however, is that if demand weakens further, it will drag out the inventory adjustment to the point where cutbacks in output and jobs feed back adversely on domestic demand. After November's 42,000 increase in unemployment, joblessness, at 9.7%, has risen back almost to the recession high of 9.8% hit in early 1994.

Another risk factor is labor strife in France, Germany's largest export market. The French rail strikes are temporarily affecting fourth-quarter output, but the real threat is the extent to which French Prime Minister Alain Juppé will abandon his plans to reform the country's bloated social-welfare system. And if the Juppé government actually falls, taking the franc and chances for the European Monetary Union with it, German exporters will feel a serious blow.

However, an all-out recession seems unlikely. As long as the franc stands firm and Bundesbank rate cuts weaken the mark, Germany's export machine should start humming again, stirring the economy back to life by mid-1996.

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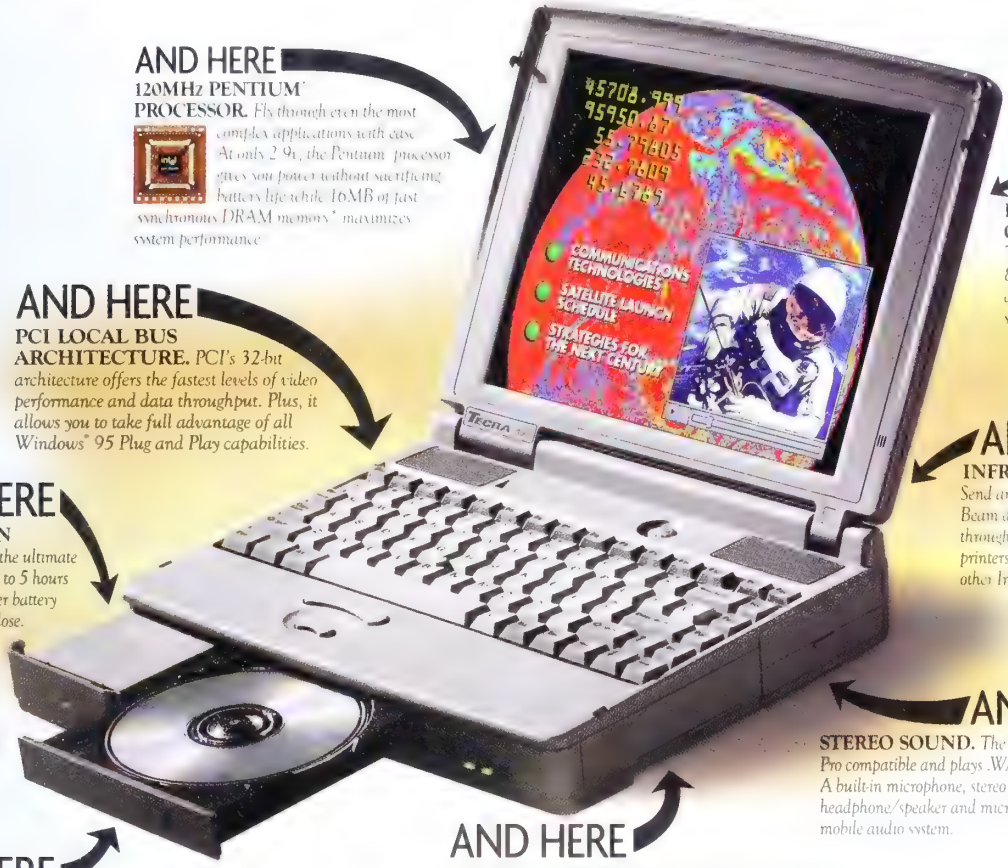

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AUTOS

BACKFIRING AT FORD

Dealer anger, Wall Street jitters, and profit pressure raise the din

With sales of the new Ford Taurus stalling, California dealers demanded a price cut in a December meeting with Ford Div. General Manager Ross H. Roberts. Roberts refused. Rebates, he said, would undermine the upscale image Ford is aiming for with Taurus' sophisticated new design. The dealers were not convinced. "We're losing customers," grouses Jim Landes, a Santa Clara Ford dealer. "They can't, or won't, admit they've overpriced it."

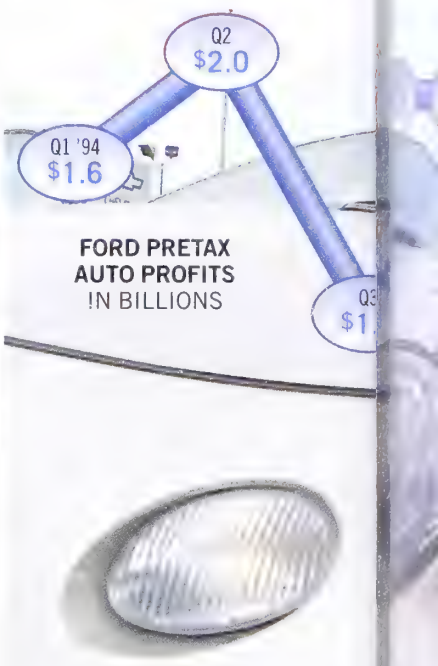
Unhappy dealers are a symptom of a much deeper malaise at Ford Motor Co. Consumers have been put off by higher prices, Wall Street is griping about its sagging profits, stockholders are nervous, and even Ford's board of directors is said to be growing restive about the auto maker's flagging performance. "Ford has some very serious problems," says David Bradley, an auto analyst at J. P. Morgan & Co. "They're in a downward spiral, and it's hard to say when they'll pull out of it." Adds one large institutional shareholder: "I don't think anyone is happy with how Ford is stinking up the joint."

Against this acrimonious backdrop, Ford is overhauling 40% of its U. S. product lineup and 35% of its European offerings. First, there was Taurus, which suffered a 22% sales decline vs. last year in its first two months on the market and is not meeting internal sales goals. A redesigned F-150 pickup is coming in January, and a restyled Escort is set to debut in May. In Europe, a new Fiesta was launched in November, and scheduled for next year is a new Ka minicar designed for urban driving. Ford has spent nearly $9 billion developing the three vehicles for the American market, and nine of the auto maker's 20 North American plants depend on their success. "These vehicles are monumental in importance to the company," Ford's Roberts says.

LOCKED IN. The distressing early returns on Taurus highlight a larger problem. Cautious consumers are turning a cold shoulder on Chairman Alexander J. Trotman's bold strategy to emulate Toyota's engineering excellence by loading Ford's vehicles with snazzy features and stiff prices. For now, Ford is holding fast to its Taurus sticker, which starts at $19,150 and quickly jumps above $20,000. It just gave the new F-150 a base of $15,045—nearly $1,150 above the '95 price. But Ford's tough line comes in a deal-driven market in which even Toyota is sca back and cutting prices. "Ford is zig while the market is zagging," says Casesa, an auto analyst at Wertl Schroder & Co. "They are locked i strategy that is not appropriate for price-sensitive market."

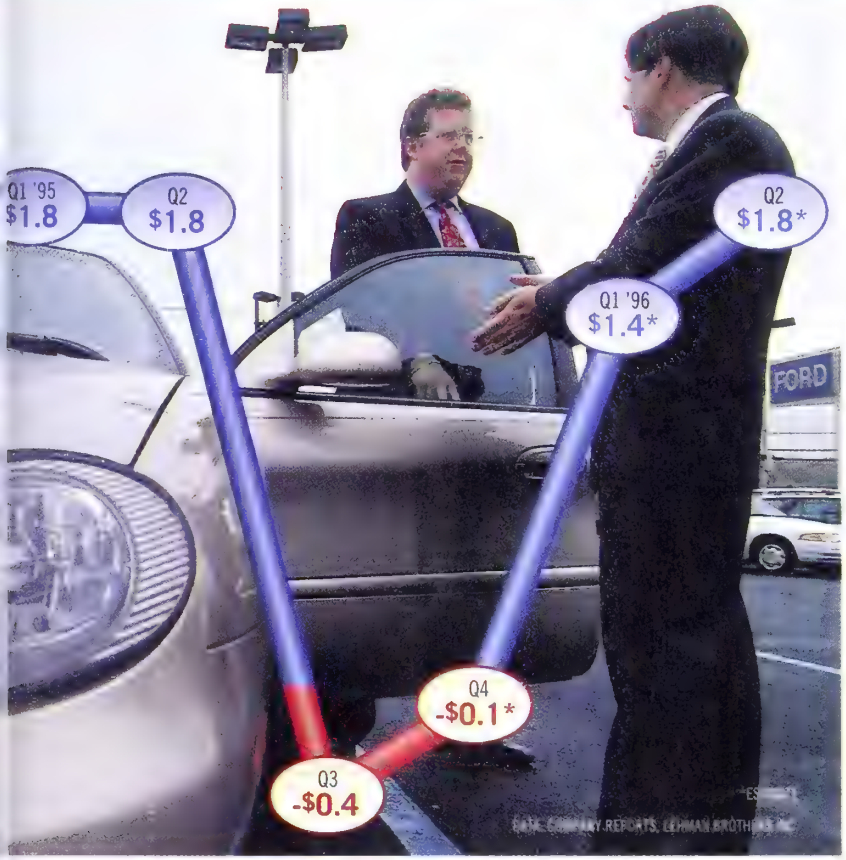
Indeed, Trotman could be force adjust his grand vision of topping eral Motors Corp. in sales and bes Toyota Motor Corp. in products. Su ers, Ford insiders, and shareholders say that Ford's board of directors the Ford family are pushing Trot to boost profitability and build mo tum in new-product launches.

Trotman denies he's under press "I'm getting along excellently with board," he says. Trotman attributes



SPIFFY—BUT IFFY—NEW PRODUCTS

◀ **FIESTA (EUROPE)** With 1995 sales of 545,000, the new Fiesta, which came out on Nov. 16, accounts for more than a third of Ford's European sales. But profit prospects are slim since consumers in the weak Euro market won't consider buying without a price cut.



◀ **TAURUS/SABLE** Ford sold 503,503 Taurus/Sables in the latest model year, making it the top-selling U.S. car. But sales of the redesigned model, launched on Sept. 27, dropped 16% in October and 27% in November. Consumers haven't adjusted to its radical new styling and near-$20,000 sticker.

n of his plan to Wall Street's fixation ı short-term results. "We're not man- ıg Ford Motor Co. quarter by quar- " he says. "We have a long-term ıtegy." Some outsiders think he's ıt to target younger, affluent cus- ers who now buy Japanese autos. u don't commit to a multibillion-dol- strategy to reposition yourselves and ı give it up because you have a few gh quarters," says Arthur D. Little analyst Bernard Campbell. "You e to be patient."

f course, Wall Street is anything patient. Ford shares have fallen n almost $32 in mid-October to about now. The driver: Ford's 68% decline hird-quarter profits, to $357 million, revenues of $31.4 billion, a scant % profit margin. On Dec. 13, Trot- ı warned that fourth-quarter earn- ; would come in below last year's number (chart). Analysts figure the company will lose nearly $100 million on its auto operations. Some worry that Ford's core business will remain in the red for the first quarter of next year. The company concedes that product launches will keep its profits under pressure through the first half of 1996.

Shareholders are anxious for Ford to recover the $2.8 billion it poured into developing the new Taurus. Inside the company, Taurus' bloated price and content are symbols of Ford's excesses. At a suburban Detroit center where Ford engineers analyze vehicles by tearing them apart, cars overloaded with features are now referred to as being "Taurusized."

Meanwhile, Ford staffers developing other vehicles are doing their best to distance themselves from the Taurus. Bob Kiessel, program manager for the new Escort, reluctantly acknowledges that his team targeted their design to match the Toyota Corolla, similar to Team Taurus' rallying cry to "Beat Camry." But the Corolla sells for about $2,500 more than the current Escort. So Kiessel quickly adds: "We will remain in the same ballpark [as the previous Escort] on price. It's very important we not lose our traditional customer."

NEW ADS. Still, Ford execs vow that Taurus will hit its stride early next year as consumers warm to its radical styling and copious creature comforts. "It is such a revolutionary change that people have to get used to it," says Roberts, who adds the original Taurus took about a year to catch on after it was launched in 1986. But younger buyers were largely ignored by this fall's $110 million ad campaign for Taurus, which played to loyal older customers with a saccharine jingle about "making the dream come true." That slogan is being dropped in new ads coming early next year.

Some outsiders worry that really fixing Ford's problems may take four years. That's when Trotman's global reorganization, known as Ford 2000, will be complete. The sweeping plan aims to take an estimated 30% out of Ford's swollen product-development costs by designing cars on a global scale instead of regionally.

Meanwhile, Trotman may have to focus on other issues, like how to keep dealers happy. "They've thrown conservatism on pricing out the window," grumbles Martin J. McInerney, a Ford and Lincoln-Mercury dealer in Southfield, Mich. Long-term strategy or not, its dealers have a New Year's resolution: to force new pricing out of Ford.

By Keith Naughton in Detroit and Kathleen Kerwin in Dearborn

RT/TRACER Ford sold 359,138 his model last year. Will a ed version, scheduled for May, be vercome formidable competition new Honda Civic and GM's d Chevy Cavalier and Pontiac

◀ **F-SERIES PICKUP** With 698,000 sold in the last model year, this is the U.S.'s best-selling vehicle. The remake, due Jan. 25, has more creature comforts, a hinged third door, and a softer ride. But will buyers balk at the $15,045 price—$1,150 higher?

CONGRESS

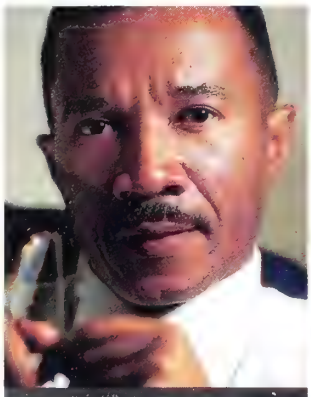
THE CROWD AT UNION STATION

Some 46 lawmakers have thrown in the towel. A business plus?

From New Jersey to Texas to Oregon, they're fed up with partisan wrangling and nonstop money chasing on Capitol Hill. They think it's high time for congressional term limits.

American voters? Nope. Lawmakers themselves. Fearful of growing public disgust with Washington's ways, members of Congress are suddenly rushing for the exits in record numbers. Since last fall's elections, 33 House members (24 Democrats and nine Republicans) have announced their retirement or resigned. And 13 Senators have departed, too (eight Democrats, five Republicans).

The exodus reaches far beyond the old or the politically feeble. On Dec. 9, Representative Kweisi Mfume (D-Md.), 47, a leading black liberal, announced that he will soon quit to become chief executive officer of the National Association for the Advancement of Colored People. "It was clear to me that I could do much more outside than I could do inside Congress," Mfume said at the time. Two days later, rising conservative star Jack M. Fields Jr. (R-Tex.) stunned colleagues by giving up his chair of the House Telecommunications Subcommittee to return to the family funeral-home business in Humble. "I missed my five-year-old's first step, her first word, and her first school play," Fields announced. "It was time to go home."



MFUME: TO THE NAACP

FIELDS: FAMILY BECKONS

All told, the departures "are a plus for business," grins GOP lobbyist Thomas C. Korologos. Many of the departing Republicans are moderates, who stand to be replaced by GOP conservatives. The Republicans will also likely profit from the eight Democratic Senate retirements. The upshot: improved prospects for tort reform, stringent caps on product-liability awards, inheritance tax relief, more business tax cuts, and repeal of the Davis-Bacon Act, which requires government contractors to pay union-level wages.

The retirees themselves share little but a common disgust with increasing incivility and polarization in Congress. Hill life has become ever more unpalatable for centrists, who find themselves outnumbered by unyielding partisans on the left and right. "The average citizen primarily wants his or her elected officials to use common sense for the common good," moderate Senator Sam Nunn (D-Ga.) said in announcing his departure, "but too often those voices are drowned out by the extremes of both parties who are usually wrong but never in doubt." Adds Rutgers University political scientist Ross K. Baker: "We're seeing the casualties now. We don't have the guillotine—but we do have political self-immolation."

SCHROEDER: NO FIRM PLANS

Those leaving Congress span the political spectrum—and the exodus may not be over

Although the retirees span the political spectrum, they fall into several distinct groups:

■ **DIXIE DEMOCRATS.** Already this year, Democrats have lost 15 Southern lawmakers to retirement. Four more have switched over to the Republican Party. Most are moderate conservatives [illegible] are frustrated at their party's lib[illegible] Hill leadership and worried about [illegible] election. "The South is becoming [illegible] inhospitable to Democrats," says Br[illegible] ings Institution congressional sch[illegible] Thomas E. Mann.

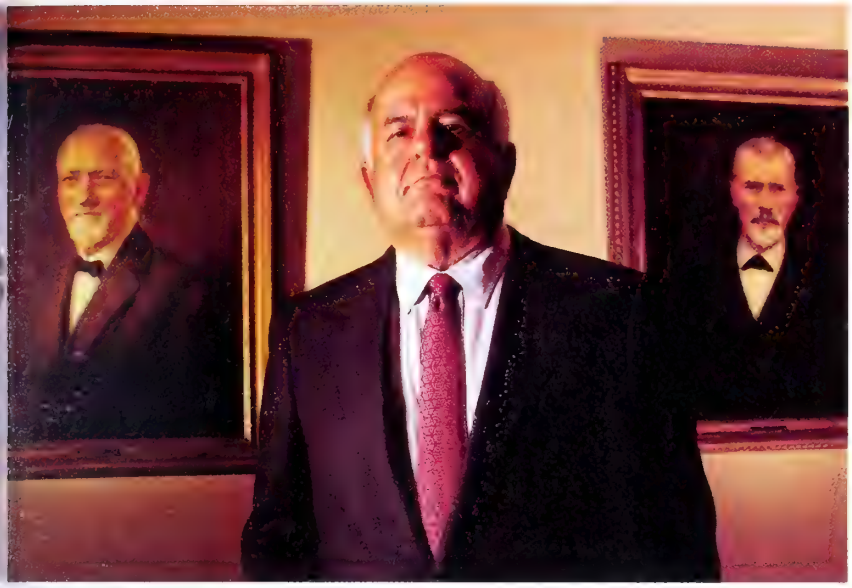
■ **THE UPWARDLY MOBILE.** Eight H[illegible] Democrats have decided to run for [illegible] Senate rather than face another da[illegible] House GOP domination under Spe[illegible] Newt Gingrich. Representative Ro[illegible] G. Torricelli (D-N.J.) is giving up a [illegible] seat to enter the race to succeed r[illegible] ing Senator Bill Bradley. Represe[illegible] tive John Bryant (D-Tex.) will join [illegible] ocratic colleague Jim Chapman in a[illegible] to upset Republican Senator [illegible] Gramm.

■ **THE GRAY WAVE.** Unseemly qua[illegible] on Capitol Hill are driving away [illegible] unusually large group of aging [illegible] moderates. Among them: [illegible] ate Appropriations Commi[illegible] Chairman Mark O. Hatfiel[illegible] (R-Ore.); Senate Labor C[illegible] mittee Chairman Nancy Ka[illegible] baum, 63 (R-Kan.); and H[illegible] Small Business Commi[illegible] Chairman Jan Meyers, 67 [illegible] Kan.). "A lot of the se[illegible] Republicans have decided [illegible] are bit players as the [illegible] bollahs take over Congre[illegible] says Representative Patr[illegible] Schroeder (D-Colo.), who [illegible] nounced her retirement at [illegible] relatively young age of [illegible] on Nov. 29. She did not s[illegible] what she plans to do once [illegible] term ends.

■ **ONE-TIME STARS.** Youn[illegible] members have even dec[illegible] they would rather quit [illegible] fight. Republican Senator E[illegible] Brown, a promising first-ter[illegible] wants to return to Colorad[illegible] age 55. Representative Bil[illegible] Brewster (D-Okla.), a 54-y[illegible] old ex-cattle rancher and [illegible] fluential conservative, say[illegible] "always intended to retur[illegible] private business."

The exodus may not come to an [illegible] in 1996. However, many of the De[illegible] cratic Party's old lions are hangin[illegible] in hopes of regaining the majority [illegible] evicting Gingrich from the Speak[illegible] chair. If they fail, another massive v[illegible] of retirements in 1998 could follow. "[illegible] body will talk about term limits ag[illegible] says GOP lobbyist Wayne Valis. The[illegible] no need to, when lawmakers d[illegible] themselves.

By Richard S. Dunham with [illegible] Walczak in Washington



GILL: *Running B&L "was Dan's life," says a former longtime executive*

ECUTIVE SUITE

UDGMENT DAY T BAUSCH & LOMB

ı the heels of a hostile meeting with investors, Gill departs

ear the end of an acrimonious, seven-hour meeting on Dec. 6 between investors and Bausch & Lomb Inc., epresentative from one of the comy's largest shareholders stood up to ıress B&L Chairman Daniel E. Gill. er the past few years, he said, the opl company had lost $1 billion worth of rket capitalization. Its earnings were ow 1991 levels. It had ceded market re in key sectors. It was subject of a Securities & change Commission investıtion into questionable acnting practices uncovered BUSINESS WEEK. Yet Gill tinued to cling to power. hat else has to happen," asked Gill, "for you to reı?" After a stunned sice, the chairman stamred that he would remain il he lost the confidence B&L's board.

That statement had a shelf life of exly one week. On Dec. 13, B&L anınced that Gill, 59, would retire by rend, to be replaced by outside Ditor William H. Waltrip as interim irman and CEO. Gill says it was enly his decision to leave. Waltrip says , who had run B&L since 1982, had ussed retirement for some time and sn't forced out at a Dec. 12 board eting. But most B&L insiders believe didn't want to go. Running B&L "was Dan's life," says a former longtime executive. Indeed, Gill recently told a top B&L manager he wanted to stay to clear his name.

But fast-moving events seem to have forced Gill's hand, starting with a cover story in BUSINESS WEEK's Oct. 23 issue that questioned whether Gill's insistence on double-digit growth at almost any cost had led B&L executives to falsify in-

Besides being under the microscope for its accounting practices, Bausch & Lomb had disappointing financial results in 1995

voices and ship unwanted goods to customers while secretly assuring many that they didn't have to pay for them. Soon after the article, the company posted disappointing third-quarter results, hammering B&L's stock. Investors had been promised a 1995 turnaround after a disastrous 1994, in which earnings before charges tumbled 54%, to $88.5 million, on revenues that fell 1%, to $1.9 billion.

Meanwhile, B&L's long-somnolent board was showing signs that it was souring on Gill. Outside directors launched a probe into the BUSINESS WEEK allegations and signaled that it wouldn't be a whitewash by hiring Gary G. Lynch, a tough-minded former chief of enforcement for the SEC, to run the investigation.

Gill's main hope was a favorable reception at the crucial Dec. 6 meeting in New York with investors and analysts. In the weeks leading up to it, top B&L executives worked feverishly to draft a fresh turnaround plan. But the day before the meeting, B&L announced fourth-quarter earnings would be just 40¢ to 50¢ a share, well below the 76¢ analysts had been expecting. B&L's stock dived again, and livid shareholders phoned directors to demand Gill's head. To appease them, Gill announced a new round of expense cutbacks. He also froze top management pay and offered to take a 10% cut in his $1 million salary.

At the Dec. 6 meeting, Gill and his lieutenants presented their new growth plan. At its heart was a huge bet on reviving B&L's flagging contact lens business. Once the industry leader, B&L had tumbled to No. 3 as disposable lenses pioneered by Johnson & Johnson stole market share. B&L proposed spending $200 million—half its capital investment—over three years on new technology to match J&J's.

LINGERING DOUBTS. But many attendees doubted Gill and his team could pull it off. One concern: J&J's cost advantage and superior marketing skills. The last hour of the meeting was dominated by hostile questions from investors, including queries about B&L's corporate jets, its costly new headquarters building, and lack of a succession plan. Investors who had been clamoring for Gill's ouster emerged feeling triumphant. A week later, when Gill's retirement was announced, the stock jumped 7.1%, to about $40.

Waltrip, 57, a former CEO of Purolator Courier Corp., insists he will only be an interim CEO. The main inside CEO candidate is William M. Carpenter, 43, a former executive with British consumer company Reckitt & Colman PLC and J&J, who was elevated to president on Dec. 13. As for Gill, he still faces scrutiny by the SEC, which is focusing on what he knew about shenanigans at B&L's contact lens unit. Waltrip also vows to continue the board probe, which could lead to more action against insiders. The B&L tale may not be over yet.

By Mark Maremont in Boston

COMMENTARY

By Geoffrey Smith

DID MAGELLAN MANIPULATE THE MARKET?

Since taking the reins at Fidelity's Magellan Fund three years ago, Jeffrey N. Vinik has presided over one of the mutual-fund industry's most remarkable success stories. With hundreds of millions of dollars pouring in from investors every week, Magellan's assets have soared from $21 billion to $54 billion. And despite Magellan's unwieldy size, Vinik has maintained its longtime status as a top performer.

VAST ASSETS: *Critics worry Vinik has unfair market clout*

After such a wild ride, it comes as no surprise that rival investors are beginning to wonder: Does Vinik always play fair? In recent weeks, it has been alleged in *The Washington Post* that the 36-year-old investment whiz had talked up a tech stock while quietly selling it. A rival money management firm also suspects Vinik of pushing up the prices of key stocks in the last three days of every month to boost his fund's return. Sources say that the Securities & Exchange Commission is reviewing data related to the suspicions.

TILTED PLAYING FIELD? Fidelity Investments denies the charges, and many market pros seriously doubt that the SEC will find anything amiss. But regulators shouldn't take the matter lightly. The allegations speak directly to the growing concern of numerous market watchers: that Fidelity's unprecedented power gives it an unfair advantage, making it impossible for smaller investors to compete on a level playing field.

The Magellan Fund has enormous market clout—and so do a growing number of other multibillion-dollar megafunds. One possible response: Regulators could require more frequent reporting of holdings by big funds. That would help reassure investors that the biggest players aren't abusing their power. Another idea: Have the SEC routinely monitor the trading of large funds that now make big moves in hundreds of stocks.

Fidelity's holdings show how high the stakes have become. With $367 billion in assets under management, Fidelity holds, at one time or another, nearly every publicly traded stock. As of Sept. 30, Fidelity owned 5% or more of 863 outfits and 10% or more of 330 more companies, according to researcher Technimetrics.

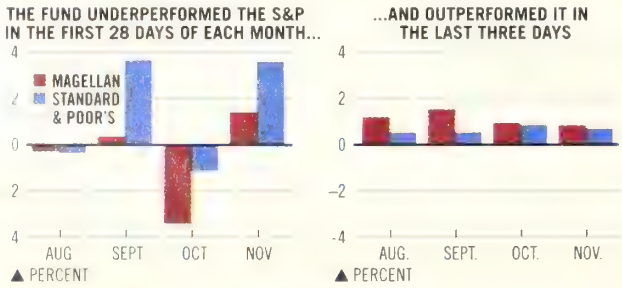
Fidelity has never been caught manipulating stocks—and it's doubtful that it will be now. The most serious charge is that Vinik publicly promoted Micron Technology Inc.—at the same as he was selling Micron shares: In Magellan's October annual report, Vinik said Micron was "still relatively cheap," even though he sold about 10% of his Micron holdings that month. On Nov. 6, he told *U.S. News & World Report*, for a December article, that Micron's "valuations are still reasonable." But sometime in November, he dumped most of his Micron stake.

"GARBAGE" STUDY. "If he said one thing and did another, it says an awful lot about the integrity of a fund manager," says Don Phillips, president of Morningstar Inc. in Chicago. But fund managers have sprung to Vinik's defense, saying their opinions on stocks can change by the minute. And James Pollock, a securities lawyer at Sherburne, Powers & Needham in Boston, says Vinik almost certainly did nothing illegal.

The other charge comes from a study by William A. Fleckenstein, a principal at Olympic Capital Management Inc. in Seattle. It shows that Magellan's largest gains in net asset value in the past four months came almost entirely in the last three days of each month. Fleckenstein suspects Vinik intentionally flooded the market with buy orders at month's end to push up the value of his most important holdings. Kenneth Heebner, manager of CGM Capital fund and one of the industry's top managers, says the study is "garbage." "You can push a stock out of line, but the market's going to push it back down," he says.

That may be. But Magellan has to consider its position as the most visible investment fund in the world. Such prominence gives Vinik a duty to be above suspicion. Investors' fears about Fidelity are real, and it's time the SEC finds out if they are justified.

A Curious Pattern at Magellan



DATA: OLYMPIC CAPITAL MANAGEMENT INC.

Smith wrote "Inside Fidelity," BUSINESS WEEK's Cover Story of Oct. 10, 1994.

ICROSOFT PLAYS HE NET

rejiggers its online service to lure millions of subscribers fast

's a major about-face for Bill Gates. n August, Microsoft Corp. launched ı massive effort to catch up with ıerica Online Inc. and CompuServe . by offering Microsoft Network, a ; proprietary online service accessible ; through Windows 95 software. MSN ckly attracted 600,000 members—not ıad start for a duct that was : to market. en, Gates uptly decided was fighting wrong battle. early Decem- , Microsoft's irman an- nced that next r, MSN would available to all the estimated million users of Internet.

Gates' new vi- ı for MSN is ch more demo- tic. After the keover is com- e, anyone who equipped with a Web browser—not ; users of Windows 95—will be able click onto MSN's home page on the o and try out the network's menu services and information. And con- t providers can skip the hassle of ıg Microsoft publishing software to ign their products for MSN in favor of Internet publishing software. The ılt: MSN's menu of news, games, and vices is likely to expand dramatically.

SERS. But the change in strategy es Microsoft with far less control r its product. And Gates's shift isn't ugh to turn MSN into a standout duct. "Their plan isn't any different n what the other online services are ıg," says Lorraine Sileo, an analyst market researcher Simba Informa- of Wilton, Conn. In the past year, vices such as Prodigy have been pting Internet standards and add- Web-based content. "Most of the online services are already looking at the Internet the way we are," admits William Miller, director of marketing at MSN. Yet he says Microsoft is better positioned to set the pace on the Internet. "For the currently successful and larger online services, it's harder for them to make the jump."

CHANGE OF DIRECTION

Old and new strategies for Microsoft Network

OLD STRATEGY

- Lock content providers into using Microsoft Web-publishing software
- Provide access to Microsoft Network only through Windows 95
- Charge subscribers a monthly fee, plus extra for special areas

NEW STRATEGY

- Let content providers use any Internet publishing software, including Java
- Allow access through any Internet browser, such as Netscape
- Develop new revenue sources, such as online ads

DATA: COMPANY REPORTS, BUSINESS WEEK

Like its rivals, Microsoft still faces the problem of making decent money from its Internet ventures. Microsoft's strategy: Making parts of MSN free, but charging fees on "exclusive" content, much like fees for premium cable channels vs. broadcast networks. Cybersurfers browsing through MSN will get teasers about exclusive products. Decisions have not yet been made on what will be exclusive. One possibility is online games, such as Microsoft's *Fury3*, a shoot-'em-up CD-ROM action title that could be played against others online. Or users of online-only products such as *CarSource*, an automobile-buying guide, could pay extra for more detailed information.

Microsoft also may charge MSN subscribers extra for news from its own online newsroom. What's more, Microsoft will likely spend as much as $200 million to help NBC Inc. launch an interactive news channel to compete against Cable News Network in exchange for an exclusive online distribution deal. "Content is the ultimate business," says Gates.

Not all of MSN's content partners are uniformly enthusiastic about the changes in the service. On the one hand, large partners such as NBC welcome the shift. Besides the all-news channel idea, NBC already has a wide-ranging deal with Microsoft to produce news and entertainment for MSN. If Microsoft had stuck to its own standard, NBC would have had to develop its Internet content for two audiences: those on MSN and those viewing NBC content on the Web using Netscape. "Now, it gets cheaper and more efficient [to develop for MSN]," says Joshua S. Grotstein, general manager of the TV network's online ventures.

Still others, such as *Cooking Light* magazine, were taken aback by the shift. "We had planned a lot of refinements to our online area with [Microsoft's MSN] software," says Doug Crichton, editor of the food magazine's online version. "To be honest," says Crichton, "We really don't know what it means." Yet if Gates gains the desired clout on the Net, even the skeptics may have no choice but to go along with the plan.

By Paul M. Eng in New York, with Amy Cortese in Redmond, Wash., and Kathy Rebello in San Francisco

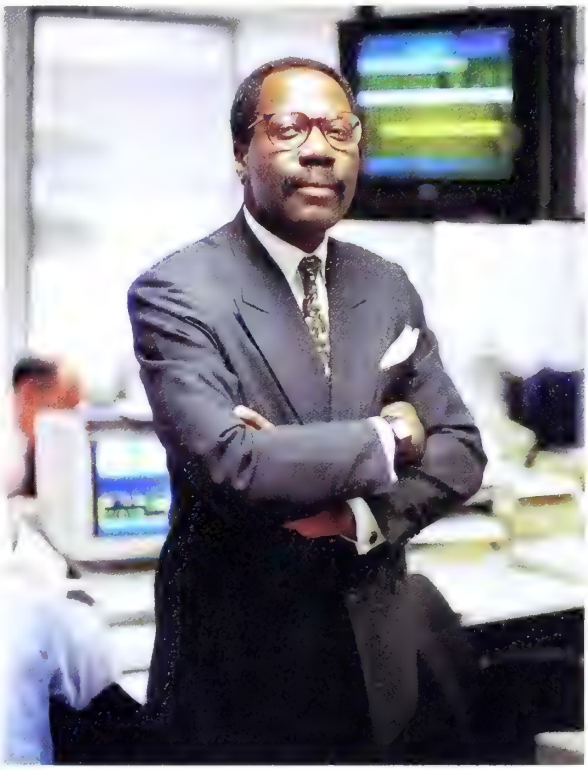
MSN becomes cheap, accessible, and compatible with other software. But can Microsoft make it profitable?

INVESTIGATIONS

WHAT'S THIS LITTLE FISH DOING IN SUCH A BIG POND?

M.R. Beal's part in a sweet underwriting deal angers many

When the government proposed a $1.8 billion stock sale to privatize the U.S. Enrichment Corp. (USEC), the federal agency that processes uranium ore, Wall Street was aglow with the prospect of fees approaching $80 million. Two dozen investment banks vied for a share of the USEC underwriting contract. But when the eight winners were announced in November, one was a puzzler. There, among such heavy hitters as Merrill Lynch and Morgan Stanley, was M.R. Beal, a fledgling minority broker with scant equity underwriting experience.



How did tiny New York-based Beal get into the charmed circle? The USEC says it unofficially was looking for a minority firm to add diversity to the team, and that the winners were chosen on merit. But minority rivals say far more qualified candidates bid for the job, and that favoritism tilted the balance. "People are stunned," fumes Napoleon Brandford, co-chairman of Grigsby Brandford & Co., a San Francisco-based minority brokerage. "It's incredible that [the USEC] can do this and get away with it."

PALE CAPITAL. Rivals suspect that Mozelle Thompson, deputy assistant secretary for government financial policy at the Treasury Dept., steered the deal to M.R. Beal & Co. over at least eight other minority firms. "I'll have to call him and thank him, if that's true," says founder Bernard B. Beal, who insists he has no knowledge of any special help.

M.R. Beal's specialty is muni-bond underwriting—not floating big equity issues. It has 40 employees and a capitalization of only $2.8 million. The firm's capital has fallen 40% in the past two years, and it has no seat on the stock exchange. And Beal's capital pales next to the other winning underwriters: The figures range from $78 million to $2.8 billion for the other seven.

M.R. Beal also has had its share of scrapes with securities regulators. New York City has excluded the brokerage firm as an underwriter since late 1994. The reason: City officials learned that Beal was being probed by the U.S. Attorney's office in Milwaukee over allegations that Gary R. George, a Wisconsin state senator, accepted bribes from muni-bond firms that were angling for state business.

In November, 1993, M.R. Beal was censured and fined $8,000 by the National Association of Securities Dealers. Without admitting or denying the accusations, Bernard Beal settled the NASD charges against his firm for allowing an unlicensed employee to sell Resolution Trust Corp. securities. For the past fo years, Beal has been the District of C lumbia's co-adviser on municipal finan But the Securities & Exchange Co mission is now investigating wheth the District violated securities laws failing to fully disclose the size of budget deficit when it sold $250 milli worth of notes last December, s sources say.

DOUBLE STANDARD? Beal defends record. While the U.S. Attorney's Off in Milwaukee declined to comment the George investigation, Beal says was notified earlier this year that firm isn't a target of the bribery prob Beal, 41, also contends that the NA charge was a procedural slap on t wrist that pales beside the multimillio dollar SEC fines levied previously agai most of the Wall Street firms involv in the USEC deal. He denies his firm is target of the Washington probe.

Rivals say that Beal was helped his ties to Thompson, who was one of members of the underwriter selecti committee. During Thompson's 1990- tenure as chief counsel of three Ne York State financing agencies, M. Beal managed $2.7 billion of the age cies' muni underwriting, according Securities Data Co. Thompson heated denies the charge: "I was not an adv cate for any firm," he insists.

UPROAR Bernard Beal's weak equity-trading experience and ties to the selection committee riled critics. Sour grapes, says Beal "USEC hired us because we are a good firm"

Rivals aren't satisfied. "What do that say about our government's co mitment to competitive equality?" fum Muriel F. Siebert, whose 28-year-o New York equity firm didn't make t final eight.

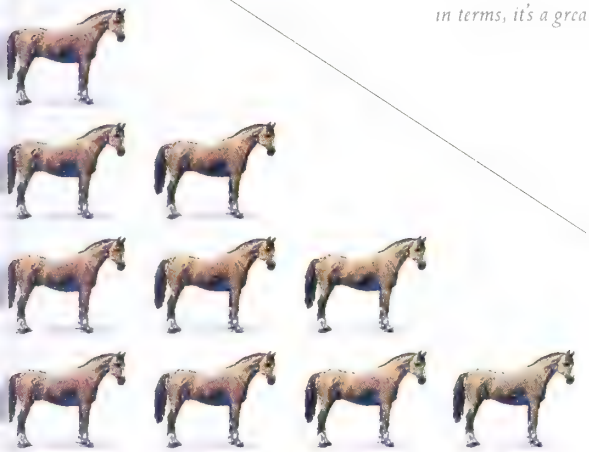
Sour grapes, Beal fires back. I notes that his firm has two resear analysts and four traders who sell million equity shares a day. "USEC hir us because we are a good firm," he sa

The USEC issue is a plum deal, wi huge fees to be divvied up among t underwriters. M.R. Beal stands to re a tidy profit—even if Bernard Beal fa to dispel the controversy over wheth he belongs in the group at all.

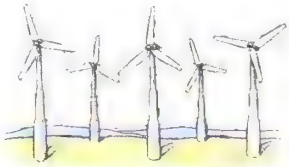
By Michael Schroeder in Washin ton, with Leah Nathans Spiro in N York

The Possession Of Wealth Does Not Exclude The Possession Of A Conscience.

Critical body components are comprised of high-tensile steel, a strong but light material known for its energy-managing properties. While this may seem like a contradiction in terms, it's a great comfort should you find yourself in an accident.



With 260 horses under the hood, the LS 400 is capable of tremendous acceleration. Unfortunately, you don't drive the autobahn, so we suggest you tap into this power sensibly.



Thanks to its finely sculptured hood and body lines, the LS 400 has a drag coefficient of 0.28 and is one of the most aerodynamic luxury sedans ever built. Which means it uses the wind as wisely as it uses fuel.

The EPA estimates that the LS 400 will get 19 miles to the gallon in the city and 25 miles to the gallon on the highway. Earning it the title of most fuel-efficient V8 luxury sedan sold in America.*

The Lexus LS 400

At this juncture in automotive history, it's easy to make a car more luxurious, more powerful, more maneuverable. Particularly if you're willing to overlook the additional demands in weight, size and resource consumption. The true benchmark of achievement, therefore, is engineering an automobile that can indulge all the senses, especially one's sense of responsibility. *It's engineering according to the laws of Lexus.*

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The Relentless Pursuit Of Perfection.

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See your Lexus dealer for details. [illegible] Maximum [illegible] gasoline, based on EPA estimated [illegible] 22 gallon fuel capacity.

DISEASES

MAD COWS AND ENGLISHMEN

Worries over a deadly ailment butcher British beef sales

It's tough being a beef eater in Britain. TV images of demented, wobbly-legged cattle—victims of a lethal illness dubbed mad-cow disease—have invaded living rooms since 1986. But government officials insisted that the disease was no threat to humans. With such assurances, beef remained on most dinner tables, and the disease returned to the back burner of Britain's concerns.

Not anymore. Nine years after scientists first identified bovine spongiform encephalopathy, public fears that the mysterious BSE agent might be infecting humans have reached a fever pitch. Two British teenagers died—in April and August—of a brain-devouring ailment eerily similar to BSE. Called Creutzfeldt-Jakob Disease, this nasty human malady has been around for decades: It killed choreographer George Balanchine in 1983. But it normally afflicts only tiny numbers of middle-aged and elderly people. In Britain, however, CJD fatalities not only are occurring among the young, but have doubled since 1985, to 55 cases last year.

NO MORE LIVER. Such scary statistics have raised fears that BSE can pass from cattle to humans. The government already bans the use in foodstuffs of cow brains and certain other organs, in which BSE is most apt to lurk. Now, some top British scientists and doctors want the ban extended to additional organs. European farmers are asking their governments to halt imports of British beef. And thousands of English schools have removed beef from lunch menus. Meat sales in shops are off by 15%, and auction prices for cattle have dropped through the slaughterhouse floor.

Other countries, including the U.S., share Britain's concerns. "We need to monitor this very carefully," says Robert Howard, a spokesman for the U.S. Centers for Disease Control & Prevention. The big fear: an outbreak among currently BSE-free U.S. cows.

TAINTED HERDS: *To fight the epidemic, infected animals are destroyed*

There is no evidence that BSE can make the jump from cow to human. Even so, former British government health-care adviser Dr. Bernard Tomlinson recently revealed that he no longer eats liver. Nor does he eat hamburgers or meat pies—which could include ground-up brains and other organs. These parts of the carcass, scientists say, may harbor the infectious agent—believed to be a rogue protein called a prion. Such proteins, which contain no DNA but nevertheless seem to propagate in organs and brains, are not deactivated by cooking. Worse, there are no vaccines or cures for the diseases they cause.

This much is known about the British epidemic: Cattle were probably afflicted after being fed ground sheep carcass infected with scrapie, a sheep disea similar to BSE. In 1988, after cows sta ed dying, the government banned t use of cattle and sheep in animal fe and ordered the slaughter of any bea with BSE symptoms. But seven yea and 150,000 BSE cases later, 300 cows week are coming down with the disea Most perplexing: Cattle born after 19 which presumably didn't eat infect feed, have contracted the disease.

BUM STEER. The European Union al has banned the feeding of cow a sheep carcasses to animals. But t U.S. has not done so, complains Richa F. Marsh, a University of Wisconsin a imal-health professor, despite many ca es of sheep scrapie. "This is a practi we've got to stop," he says.

The seeming increase in CJD may r sult from better reporting of cases. B Sheila Gore, a biostatistician at Britai Medical Research Council, says ther only a 1-in-10,000 chance that the fo farmers who have died in the past thr years represent a normal incidence the disease. More worrisome are t deaths of the two teenagers. There ha been only four other recorded cases CJD among teens in Europe and t U.S. Still, given the long incubation p riod for the disease, "it's going to many years before we know if hum health has been compromised," says Dr Will Patterson, a British public-hea specialist.

For Britain, the big question whether to ban human consumption all beef brains and other organs—a risk slaughtering Britain's beef indu try. The more Britons swear off be the less relevant such a ban become

By Heidi Dawley in London, w John Carey in Washington

STAMPEDE

1986 The first cases of bovine spongiform encephalopathy (BSE), nicknamed mad-cow disease, show up on British farms

1988 Britain begins slaughtering, then incinerating diseased cattle

1990 To quell fears, then-Agricultural Minister John Gummer has his daughter eat a hamburger on TV

NOVEMBER, 1995 Alarm spreads with a report that four farmers died from a disease similar to BSE

DECEMBER, 1995 1,000 schools remove beef from lunch menus

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KOREAN AIR

TRENDS

DO YOU HAVE THE FEELING THAT YOU'VE BEEN HERE BEFORE?

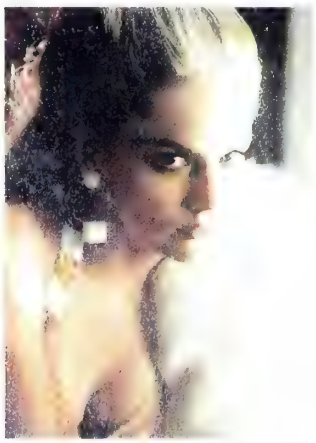
Well, you have. Good grief, even Nixon is back

Call it déjà vu. The mid-Nineties are looking a lot like the mid-Sixties. U.S. troops are headed for a relatively obscure, war-torn country, the Beatles and 007 are hot, and inflation hardly exists. Commies are making a comeback. Protein is edging out carbohydrat New York is looking like Fun City once more. A no one is ashamed of being spotted in a bar. Ev Nixon is back in the limelight. Keep the faith.

CLICK! CLICK! CLICK! MMM! MMM! MMM!

SO IN THEY'RE ALMOST OUT

WAKE-UP CALL FOR THE MOUTH



STONE GORGEOUS

WHAT'S IN	WHAT'S OUT
BUSINESS	
Deflation	Inflation
Stock pickers	Index funds
Change management	Reengineering
Strikebreaking	Worker empowerment
Stock deals	Cash deals
Airline mergers	Fare wars
Bank mergers	Bank branches
Cable news	*60 Minutes*
Sears	Kmart
Java	Windows 95
BMW Z3	Mazda Miata
SOCIAL TRENDS	
Beatles	Michael Jackson
James Bond	The CIA
Spike heels	Running shoes
Bagels	Croissants
Protein	Carbohydrates
Sharon Stone	Demi Moore
Jane Austen	Joe Eszterhas
Cleveland	Cleveland
Altoids	tic tacs
Blue M&Ms	Snapple
New York	Seattle
Bars	Starbucks
Books	Videos
Faith	Cynicism
POLITICS	
Nixon	Gingrich
Economic nationalism	Free-trade agreements
Social Darwinism	Social welfare
Steve Forbes	Ross Perot
Flat tax	Value-added tax
Gridlock	Republican Revolution
Voluntary retirement	Term limits
Peacekeeping	Isolationism
Old Communists	Lech Walesa

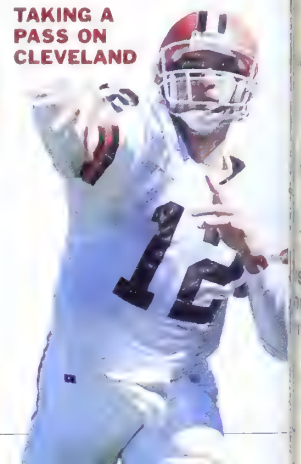
Edited by Edward C. Baig

THE LIGHTS ARE ON, BUT.

DESTINATION: NOWHERE

LATTE SCHMATTE

TAKING A PASS ON CLEVELAND



Patricia Kaneb, CEO
Priscilla of Boston
/E VOW TO HONOR AND PROTECT HER 10,000 TIMES A YEAR.
most women, a wedding dress is a once-in-a-lifetime purchase. To Priscilla of Boston, it's the mainstay of a
y-year-old business that sells 10,000 nuptial gowns each year. And to make sure that the company is cov-
d properly, Priscilla of Boston turns to Chubb. For Priscilla's five stores and one factory, Chubb proposed a
ique package of protection that not only covers the cost of goods, but their selling price as well. As one of
world's leading business insurers, Chubb has more than 112 years of experience—along with the highest
ings for financial strength—to make us a loyal partner to businesses, big and small worldwide. What can
ubb do for your business? Ask your independent agent or broker, or call 1-800-36 CHUBB.
SURE
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litions and exclusions of the policies as issued. Coverage may not be available in all jurisdictions. Chubb Group of Insurance Companies, Box 1615, Warren, NJ 07061-1615.

LET THEM EAT CAKE: *This year, sales will reach $32 million*

THE HOLIDAYS

THE WORLD IS THEIR FRUITCAKE

Nobody admits to eating it, but a Texas bakery sells tons

It's 10:30 a.m. on a late November day, and Collin Street Bakery in Corsicana, Tex., is buzzing. In the lobby, about 10 people wait in line to place cake orders. Nearby, about 120 women packed into a few hundred square feet place cherries, pineapples, and pecans on top of the hundreds of cakes rolling off a conveyor belt. On the second floor, 40 operators handle a flood of calls. In all, some 15,000 orders will pour in today.

So, what cake whips up such euphoria at this time of year? Fruitcake, of course—that holiday confection that everybody loves to hate. 'Tis the season of fruitcake frenzy, and the Collin Street Bakery is in the thick of it. The firm, which will celebrate its 100th anniversary in 1996, is the largest fruitcake mail-order emporium in the world. This year, closely held Collin Street will rack up sales of $32 million, churn out some 33,000 fruitcakes each day in the 12-week stretch before Christmas, and ship more than 1.5 million of the nut-packed desserts around the world.

RUM DEAL. That's enough fruitcake, maybe, to challenge the Fruitcake Theory. Popularized by *New Yorker* writer Calvin Trillin, it says there is really only one fruitcake in the world, which is passed around from family to family each Christmas. Trillin says he doesn't hate fruitcake—"I just don't eat it." I guess I should fess up: I'm no fruitcake fan myself. For one thing, I'm suspicious of those green and red bits. Also, every Christmas for as long as I can remember, my mother's aunt baked our family a fruitcake. Hard as a rock, its only saving grace was the healthy dose of rum poured into the mix.

Yet fruitcakes are serious business in this Texas town. Although 95% of Collin Street's business is by mail, CEO L. William McNutt Jr. says about 250,000 people a year visit the bakery, where coffee costs a dime and samples are free. Orders pour in from around the world, sometimes addressed simply to "Fruitcake, Tex." The 400,000 mail-order customers include everyone from Princess Caroline of Monaco to comedian Dom DeLuise.

Founded in 1896 by German baker August Weidmann and Corsicana entrepreneur W. Tom McElwee, the bakery stumbled into mail order when John Ringling and his famous circus troupe visited the town. Ringling requested that cakes be sent to fans and family around the world. Later, in 1946, Bill McNutt's father purchased the bakery and expanded the business.

What is it about the Collin Street fruitcake that invokes such loyalty? McNutt attributes it to 11 "quality" ingredients. To ensure supply and quality, the company has its own pineapple plantation in Costa Rica and its own pecan-shelling plant in Corsicana. "There's no big secret," says McNutt.

Maybe. But the trick is to put those ingredients together in the right proportions—a skill that's surely eluded many fruitcake makers, like my aunt. She passed away last March and will be dearly missed this Christmas. Not to worry about the fruitcake, though: I'm bringing one home from Corsicana.

By Stephanie Anderson Forest in Corsicana

TOYS

THE EMPIRE STRIKES AGAIN

18 years later, *Star Wars* is once more a marketing sma

The Skywalkers and Chewbac have been snapped up. Han S too. Power Rangers? Losing pov Ninja Turtles? Turtle soup. Instead, empire is striking back, sending p ents across the U.S. scouting franti ly for *Star Wars* action figures.

That's right, *Star Wars*. The marl ing juggernaut that once flooded the tion with products based on the mo is back with new figures, videota and games. This Christmas, children born when Obi-Wan Kenobi talked ab the Force have been sold on the ide

FIVE-YEAR PLAN. Since the August release of the videotapes, consumers h bought more than 16 million copies. C puter games connected to the flicks s as *Rebel Assault* are hits, too. With megatoy rivals, the action figures, m by Hasbro Inc., rank third on *Playth* magazine's ann list of hot toy first among th geared to b "When there i some kind of commodity, child revert to c brands," says M rill Lynch & analyst Eric Katzman.

CHEWBACCA: *A Hasbro hero*

The return *Star Wars* is a liberate five-y campaign, mas minded by dire George Lucas' casFilms. A 20th-anniversary editior *Star Wars*, including scenes cut from original, will open in theaters in 19 Starting in 1998, one new *Star Wars* a year will appear for three years.

To kids, the *Star Wars* stuff is sin cool. Max Denby, a New York seve grader born just after *Return of Jedi* opened, watches the video plays the games. "*Star Wars* has a adventure-movie sense to it," he sa expressing wonder anything so old c be so good. If the marketers have t way, Denby and his pals will be hoo on *Star Wars* well into the next cent

By David Leonhardt in New Y

TED BY THANE PETERSON

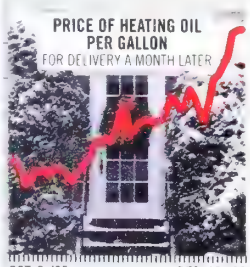
ILVY & MATHER'S RESS APPARENT

AN ON THE MOVE: SHELLY ırus, the ad exec credit- vith snaring the giant account for Ogilvy & her in 1994, was named ident of Ogilvy & Math- Vorldwide, which over- 272 O&M offices. The e comes as more compa- , including Bayer and ate-Palmolive, are con- ating global advertising ne agency. "The con- er's perception of the d is actually very, very h the same around the d," says Lazarus, 48. "It es sense to use a single ıcy." Lazarus now is 2 to—and the front-run- to succeed—O&M CEO lotte Beers, 59.

CLOSING BELL

IE COSTLY CHILL

y, it's cold outside. And it n will cost more to stay m, especially on the East st. On Dec. 12, prices of ting-oil futures jumped to month highs on the New Mercantile Exchange be- se of the recent big chill low inventories. A gallon eating oil for January de- ry was 56.8¢ on Dec. 12, 15% from Oct. 2. Some k the hikes won't last. New York dealers see et prices rising 5¢ per lon there within weeks.



A BIG BANG FROM BANK OF BOSTON

BANK OF BOSTON CHAIRMAN Charles Gifford accomplished in four months on the job what his predecessor, Ira Stepanian, couldn't do in eight years: make a big acquisition. On Dec. 12, Bank of Boston agreed to pay $2.2 billion to buy BayBanks, New England's premier retail bank, with $11.5 billion in assets. The deal lays to rest long-standing concerns that Bank of Boston would be left as a second-tier player once the latest wave of bank consolidation ends. But the combined banks themselves could be an alluring takeover target.

CIGNA GETS NO BREAKS IN MISSOURI

CIGNA'S EMBATTLED PLAN TO split its property-and-casualty company in half—with one inactive unit to hold billions of dollars in asbestos and environmental liabilities—has run into still more trouble. Missouri insurance regulators say the plan, as designed, would be illegal. A letter to CIGNA dated Dec. 7 and obtained by BUSINESS WEEK on Dec. 13 says such a plan needs approval by Missouri regulators—not just those in CIGNA's home state of Pennsylvania—and would be subject to approval by policyholders in Missouri. CIGNA insists it does not need the state's approval.

AT BOEING, A POLITE 'NO' CAN PAY OFF

SOMETIMES A UNION IS WISE to take a hard line. On Dec. 11, three weeks after 32,000 striking machinists rejected a deal signed by Boeing and union leaders, the aircraft maker came back with more. Workers will get an extra 6.5% in bonuses during the next two years, for a total increase of 14.5% in bonuses and 6% in wage hikes over four years. Boeing also agreed to shift less in health-care costs to employees. Plus, it will retrain employees whose jobs are subcontracted.

BIGGER BONUS: *Machinists got 6.5% more from Boeing*

HEADLINER: CHRISTOPHER STEFFEN

BIDDING CITIBANK ADIEU

When Christopher Steffen left Eastman Kodak in 1993 after 11 stormy weeks as chief financial officer, Kodak lost more than $1 billion in market value. But his Midas touch didn't last at his next job, as vice-chairman of Citicorp: He resigned abruptly on Dec. 8, and Citi's stock closed the day down a mere ⅝. Chairman and CEO John Reed offered only a brief statement thanking Steffen for his service and immediately named longtime Citibanker Victor Menezes to become CFO.

Why the departure? Sources say Steffen's pay, nearly $1.7 million in 1994, rankled some at Citi. And his mandate—to pare expenses and toughen up management practices—gave him little opportunity to forge alliances with bank veterans. Worse, Wall Street wasn't satisfied with the cost savings Steffen was delivering. Some major Citi shareholders may even have complained to Reed.

Where will Steffen go? He isn't saying. A headhunter called him about a vice-chairmanship, but Steffen said he wants to be a CEO. Anyone need a hired gun?

By Kelley Holland

SCHOOLS ON THE NET WON'T COME CHEAP

COMPUTER LITERACY IS COSTLY. In a report scheduled for release on Dec. 14 by the U.S. Advisory Council on the National Information Infrastructure, McKinsey estimates that putting computers in every public classroom from kindergarten through Grade 12—1 per 5 students—would consume 3.9% of the nation's K-12 budget by 2005, up from 1.3% now. But the panel stresses the importance of computer and Internet access for students and says teacher training is a key to using classroom PCs more efficiently.

ET CETERA . . .

- Commerce Dept. official David Rothkopf quits to join Kissinger Associates.
- Ziff-Davis and Yahoo plan an online 'zine, also available on paper and CD-ROM.
- L'Oréal is paying $508 million for Maybelline, making it No. 2 in U.S. cosmetics.
- Kimberly-Clark will cut 6,000 jobs as a result of its Scott Paper acquisition.

CHINA

WHO WILL FLY WITH BEIJING?

Westerners vie for a hot partnership

In the smog-choked industrial city of Xian in northwestern China, executives from Western aerospace companies such as Boeing, General Electric, Rolls-Royce, and United Technology's Pratt & Whitney unit have grown into a cozy community. Holed up mostly in the same hotel, they spend much of their off hours hanging out with each other and talking shop. They even see each other regularly at work, since all are dealing with the two state-owned factories in Xian that make airframes and engines.

But make no mistake. The competition among the Western aerospace companies for Chinese business is intense. Now, their battle for market position is entering a decisive stage. That's because Beijing is expected to choose a Western partner for a $2 billion Sino-Korean consortium that will build a new 100-seat commercial jet in China. Jockeying to win the deal are Boeing, McDonnell Douglas, Daimler Benz Aerospace, and a French-British-Italian joint venture called Aero International (Regional). Possibly within weeks, Beijing is expected to announce the two finalists, most likely Boeing and the European consortium. With demand in China expected to top 200 planes over the next decade, the winner will have an inside track in this big new market.

ON THE MAP. The Chinese hope to be even bigger winners. Whoever gets the nod could provide China with the design and manufacturing knowhow to put it on the global aerospace map. The aircraft program and others like it underline Beijing's intent to push its aerospace industry to a new level after years of merely assembling components and midrange jets for McDonnell Douglas (table). Using its domestic market as a lure, China wants the giants to help it produce aircraft and engines both for its home market and for export. "China wants to be at the same level industrially as the West," says a Western diplomat in Beijing. "They're trying across the board to come up to international standards."

Despite press reports that the Europeans have the deal locked up, insiders say the competition is still going strong as Beijing tries to squeeze greater technology transfers out of the contenders. The Europeans are generally reckoned to be willing to transfer more technology because unemployment and profit pressures are greater on them. Moreover, the prospect of shifting manufacturing to China is more controversial among U. S. workers, and American laws on tech transfer that could further China's military ends are tougher.

The 100-seater is just one piece of a broad Chinese strategy in aerospace. Already, China exports its own simple military planes, helicopters, and turboprop commercial jets, although only to other developing nations. GE, Pratt & Whitney, and Rolls-Royce all produce engine components and are discussing new engine projects in Xian. The Chinese also want to work with Boeing to produce a smaller commercial version of its Chinook helicopter.

China is unlikely to emerge as a threat to Boeing or Airbus Industrie in their home markets. Although China has become a reliable, low-cost source of tail and nose sections, it is at least a decade behind the West in design, material sciences, avionics, customer support, and service. Even if Chinese engineers mastered production of a 100-seat aircraft, many of the technologies required to manufacture it are mature and widely available in the marketpla

Some experts doubt whether the 1 seater program is commercially via "The market is full of companies in t area," says Richard J. Latham, pre dent of UTC International, China. Da ler's commuter unit, Fokker, for exam is losing money and laying off worke Moreover, China's 40 carriers en growing management autonomy and less interested in 100-seaters, arg Jim Eckes, managing director of Ho Kong-based leasing firm Indoswiss L Because passenger demand inside Ch is surging and carriers lack skilled lots, carriers may want to stick w larger Boeing 737s.

Boeing is a main conten

COMPONENTS Making ta tions and nose cones for l others.

COMMERCIAL JETS Bui midsize MD-80s and MD- joint venture with McDon Douglas. Negotiating with ern partners to form $2 b consortium to make nev seat commuter plan

China wants a commercial Chinook

HELICOPTERS Working with French and Singapore partners on E-120 light helicopters. Discussing with Boeing plans to build commercial version of Chinook military chopper.

China's Aerospace Drive

BEIJING

XIAN

SHANGHAI

McDonnell Douglas

ENGINES Providing parts to Rolls-Royce, General Electric, and Pratt & Whitney. Talking with GE and others to co-produce engines for the proposed 100-seater.

TURBOPROPS Seeking U.S. certification for 19-seat Y-12 and 50-seat Y-7, now exported mostly to developing nations.

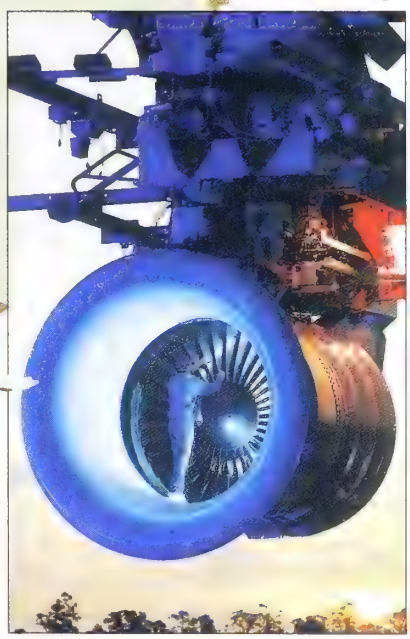
DATA: BUSINESS WEEK

But nobody can stay away from the 100-seater competition because it's just a matter of time before Asia has its own regional plane program. Over the next few years, predicts British Aerospace's Airbus International Aerospace unit, Asia will purchase 30% of the 2,100 planes sold in the 90-to-120-seat range. For several years, Boeing, Daimler, and McDonnell Douglas have tried to form their own plane groups in Asia and have been wooing partners in Japan, Korea, Taiwan, and elsewhere.

The breakthrough came in March, when South Korean President Kim Young Sam signed a memorandum of understanding with China. Korean Air Co., which makes parts for Boeing, and Samsung Aerospace Industries Ltd., licensed to make jet fighters, are key players on the Korean team. The Chinese and Koreans recognized that to make the venture click, they had to attract the technology, financing, marketing, and service of a Western giant.

The decision to vie for the venture represents a major shift for Boeing, which had long resisted pressure from Beijing to enter a co-production program. A source close to Boeing says the company "seems to have recognized that the Chinese will [make the plane] anyway." During two months of walking the picket lines, Boeing's unions attacked the company's presence in China as part of a scheme to transfer jobs from the U.S. But executives close to the bidding say Boeing's offer stresses global help in marketing, training, and servicing and doesn't threaten the production done by American workers.

WILLING. GE figures it has little to lose in working with the Chinese. GE makes some parts of its CFM56 engine, used in the 737, in China. But since components for the engine—a collaboration between GE and a French partner—are sourced in Italy, Germany, Canada, and France, GE would be redistributing work done overseas anyway, says David A. Voeller, manager for China aircraft engine operations. For its part in the 100-seater program, GE is offering to help build a small version of its CFM56 engine. Voeller says the company is "willing to go pretty far" in transferring knowhow, because the basic technologies it uses are old. Besides, China "may be the only market for this engine."



A Pratt & Whitney engine

As they compete to get Beijing's approval, the aerospace companies recognize the need to be careful about giving away too much technology. "If they teach the Chinese how to make planes really well, they won't be doing business here in 10 to 15 years," says the Western diplomat. But with the Chinese expected to spend $40 billion on aircraft over that period, no one can afford not to play China's game.

By Pete Engardio in Hong Kong, with David Lindorff in Xian, Dexter Roberts in Beijing, Tim Smart in New Haven, and Stewart Toy in Paris

THAILAND

THE MAGICAL MONEYMAN OF THAILAND

The startling rise of Charn Uswachoke, TI's new Asian partner

One princess, two pigs' heads, and nine monks graced the groundbreaking ceremony for Texas Instruments Inc.'s newest semiconductor plant, in Chachoengsao, 25 miles east of Bangkok, Thailand. A court Brahmin, resplendent in white tunic and trousers—with a mobile phone tucked into his waistband—directed Princess Galayani Vadhana's blessing of the cornerstone, accompanied by chanting monks and a blue-and-white-suited school band.

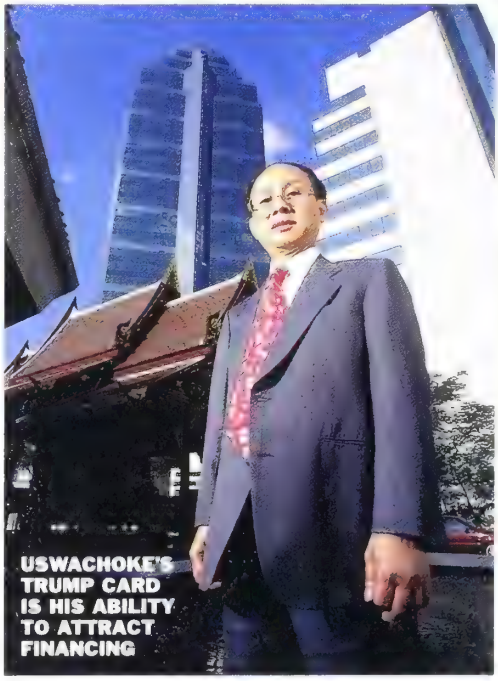
What allure could such a setting possibly hold for TI? It's an opportunity to sink even deeper roots in Southeast Asia—the world's fastest-growing semiconductor market and production base. TI already is milking three profitable chip joint ventures in Japan, Singapore, and Taiwan. All three are set up so that TI can pass off most of the huge investment burden, reap profits as long as the chip market is strong, and shrug off the damage if the market tanks.

SNAKEBITES? But taking this model to Thailand poses new challenges. The country boasts neither the spotless high-tech industrial parks nor the state-of-the-art telecom and transport systems that TI is used to. Snakebite kits were in the packets handed to TI's construction team at the planned $1.2 billion facility, on a rutted, unpaved road running beside rice paddies. Nor can TI depend on a corps of local engineers, such as those found elsewhere in Asia.

But TI is confident, because its partner, a soft-spoken Thai entrepreneur named Charn Uswachoke, is a minor miracle worker. In less than a decade, his Alphatec Group has built an empire packaging and testing chips for the likes of TI, Cypress Semiconductor, and Advanced Micro Devices. To win over TI, he's picking up 74% of the tab.

Last year, the nine companies that make up his group posted combined profits of $60 million on sales of $1 billion, both up about 30% from 1994. While most Thai electronics companies are screwdriver plants for Japanese VCRs and TVs, Alphatec has higher-tech niches. The group "seems to be driving the whole industry in Thailand," says Eddy Tan, a Singapore-based semiconductor analyst for Dataquest Inc.

One credential that caught TI's attention: Uswachoke's long experience working with Western businesspeople. A U. S.-educated engineer and MBA, he lived in the U.S. for 11 years. Back in Thailand, he ran AT&T's Thai semiconductor unit, and then acquired Philips Signetics' Thai chip-packaging operation in 1988. Next, he harnessed a team of expatriate managers to run Alphatec. Today, he's the only Thai among the company's 10 top executives.



USWACHOKE'S TRUMP CARD IS HIS ABILITY TO ATTRACT FINANCING

Uswachoke's other trump card is his ability to attract major-league financing. A member of Thailand's close-knit, powerful ethnic Chinese community, he's a master of *guanxi* (connections). When he needed $25 million to buy the Philips Signetics unit, Uswachoke simply made a few phone calls to friends. They were on hand again when he was short $70 million to buy the AT&T subsidiary, and they may put up as much as $500 million for the TI venture. Marvels Alphatec Group's American president, Robert B. Mollerstuen: "You shake hands and walk away with millions."

With more of that kind of financial help, Uswachoke figures, group sales could quadruple, to $4 billion by 2000. To get there, Uswachoke covets grander industrial base (table). Even a he was negotiating with TI earlier th year, his company broke ground on $1.5 billion fabrication plant to mak logic chips in the same vicinity. Tw other plants, worth $400 million, are the works nearby. The result will b Thailand's first high-tech industrial par called Alphatechnopolis, occupying swath of land double the size of Ta wan's famed Hsinchu Science Park.

None of these bold projects is free risk. Already, Uswachoke is shoulde ing a debt burden that will soon ou weigh his equity base. What's mor with massive new dynamic random-a cess memory capacity coming on strea in North America, Europe, and Nort Asia, Alphatechnopolis could be crankin up just as the chip industry heads sout

But that seems unlikely. Dataque expects semiconductor consumption non-Japanese Asia to surpass the Jap nese market in 1998, making it the se ond-largest in the world, after the U. Getting in early, says the president TI's Semiconductor Group, Thomas Engibous, "gives us access to the be educated labor force in the country."

Moreover, if global growth of the i dustry accelerates to 20% a year, a some expect, TI's current customers w be clamoring for more product than i existing plants and joint ventures ca supply. That should leave Uswachok plenty of room to pursue his favori activity: rapid expansion.

By Mark L. Cliffo in Chachoengsao, Thailan

A NEW ASIAN CHIP POWERHOUSE

(Alphatech's 1995 investments)

- Breaks ground on Thailand's first major chip fabrication plant, worth $1.5 billion
- Breaks ground on first phase of $1.2 billion DRAM plant with partner Texas Instruments
- Lays plans for a $1 billion high-tech industrial park called Alphatechnopolis
- Announces a $165 million expansion of U. S. chip-testing and assembly operations
- Constructs a $50 million chip-testing and assembly facility in Shanghai

DATA: BUSINESS WEEK

By Stewart Toy

FRANCE: WHEN THE GOING GETS TOUGH, THE TOP CAVES IN

Given his clumsy handling of France's worst social crisis in decades, it's no great surprise that Prime Minister Alain Juppé has begun caving in to strikers who have paralyzed France for three weeks over planned cuts in the welfare state. Despite his promise of "deep change" when he took office in May, Juppé is sticking to archaic French ways. In France, autocratic politicians cook up new laws. Citizens either acquiesce or rampage in the streets. Only then do pols try to build consensus, but by that time the trenches are dug.

Striking rail workers have already forced Juppé to dump a key measure in his plan to slash welfare deficits: Rail employees will continue to retire as early as age 50. This perk—from the days of coal dust in the lungs—has produced more railway retirees than active employees. Juppé is also killing a plan to close uneconomic train routes, despite a rising rail deficit that will hit $6 billion this year. These givebacks represent a modest part of his austerity plan, but the risk is that other groups will win concessions. Too many cave-ins, and France won't meet criteria for European monetary union in 1999.

OSTRICH ACT. Perhaps the most disturbing bone that Juppé is tossing strikers is his Dec. 10 promise of a constitutional amendment to perpetuate state control of public services—trains, telecom, and sectors not yet spelled out. This dooms French taxpayers to subsidize inefficiency forever. It will also help keep France's head in the sand as free markets transform the world economy. And it will encourage a rift in Europe, where competition is supposed to be the stimulant of a unified economy.

Nearly all Western Europe is privatizing telecom monopolies. That allows restructuring, so the companies can compete in a globalizing industry. France Télécom's managers have hoped for similar rights; now they'll remain hostage to politics. Potential foreign partners may balk at state control. France Télécom is building an alliance with soon-to-be-privatized Deutsche Telekom and Sprint Corp. Washington, skeptical of France's vow to open its telecom market, now could delay or kill the deal.

ANGRY NURSES: *Juppé seems unable to stand up to strikers*

Maddeningly, the French are glad to exploit freewheeling capitalism abroad, while limiting it at home. France's state railway has joined a group bidding to buy the heavy-freight business of British Railways. It's unlikely any foreign line will get that chance in France, if Juppé's amendment goes through. Moreover, when Paris does privatize, it typically shields companies from foreign acquirers by setting up "hard cores" of docile institutional investors. That's not a recipe for competitiveness.

Free-marketers in and out of France had hoped Juppé would give capitalism a new chance. A brilliant technocrat, he's a conservative with an 80% majority in parliament. He and his boss, President Jacques Chirac, won office last May by vowing to undo the mistakes of 14 years of Socialist rule. Trying to reform France's deficit-plagued welfare state was a good start, but Juppé—cool and cerebral—didn't bother to tell his compatriots why that mattered.

European monetary union is one reason, but more pertinent to French workers is job creation. Unemployment is 11.5% and rising. Cushy social programs keep taxes high, and that prompts business to export jobs. French companies are already on an investment binge. They have invested more abroad than German industry in each of the past five years. While global reach is good, the job market at home suffers.

Juppé has further raised taxes to cover budget deficits—contrary to Chirac's tax-cutting electoral promise. And instead of letting markets operate, he has expanded such artificial stimuli as state rebates for car buyers. Car sales are slumping anyway, because earlier stimulants borrowed against future sales. Juppé is maintaining France's outmoded motto: tax, spend, protect.

Granted, France is tradition-bound and tough for any leader to budge. Most labor bosses refuse to see that France's sluggish economy and aging population can't support the social programs of yore. They'll bear heavy blame if monetary union dies and jobs go elsewhere.

SUMMIT. To his credit, Juppé says he'll convoke a "social summit" of union, business, and other leaders to tackle solutions to welfare deficits. On top of labor hostility, he'll face reluctant business leaders who fear the summit will arouse militance in the private sector. So far, strikers are strictly public workers.

Chirac says the government will tough it out. "We were not elected to organize the decline of France," he says. But as *Le Monde* commented, the strikes have so discredited Juppé that he may not be "the best person" to lead the exercise. Unless Juppé can settle the crisis without a further cave-in, Chirac might be smart to replace him and declare a fresh start for his seven-year reign.

Toy is BW's Paris bureau chief.

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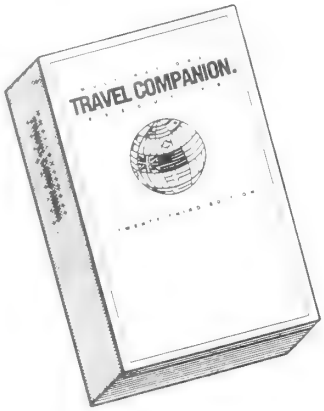

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MEXICO

'SALINAS' IS FAST BECOMING A DIRTY WORD

The scandal could undermine Zedillo–and economic recovery

The December jitters have hit Mexico again. Last year, it was the currency crisis and economic collapse. This year, the growing scandal surrounding the family of former President Carlos Salinas de Gortari has the country on edge.

Investigators have now identified more than $106 million stashed in British and Swiss bank accounts by the former President's brother, Raúl. The ongoing investigation has Mexico's business class running scared. Those who did business with Raúl Salinas are worried about being called in by investigators, while others are concerned that sensational revelations could undermine attempts to stabilize the economy. The scandal also threatens to damage Mexico's crucial relations with the U.S., which led the $50 billion bailout for Mexico earlier this year.

Trust between the two countries has been damaged by a recent news report saying that U.S. Drug Enforcement Administration and other law-enforcement agencies have uncovered some $500 million in various bank accounts linked to the Salinas family. The State Dept. and the Justice Dept. immediately denied they were conducting any criminal investigation of Carlos Salinas. Still, sources in Washington say officials of the Bush and Clinton Administrations have long suspected that some members of the Salinas administration might have had links to Mexican drug cartels during Carlos Salinas' term in office from 1988 to 1994.

SHORTCOMINGS. Earlier this year, the sources say, the DEA wanted to withhold official certification that Mexico was cooperating with bilateral drug-combating efforts but was overruled by the State Dept. James R. Jones, the U.S. ambassador to Mexico, denied that he or State tried to discourage the DEA. "That's just not true," he said in an interview.

The investigation also threatens to turn into an embarrassment for Citibank, the leading U.S. bank in Mexico and the developing world. According to press reports, British police have frozen a $22.7 million bank account belonging to Raúl Salinas at Citibank in London, and U.S. authorities have discovered another of Raúl's accounts at Citi in New York.

OH, BROTHER: *Raúl Salinas and a companion in happier days (above); wife Paulina Castañón (right)*

That apparently has Citibank worried. Several sources say Citibank México recently braced for a raid by zealous Mexican police. The fears seemed to stem from Mexican press reports that Raúl Salinas may have used Citi branches to funnel money out of the country. Says Citibank: "We always thoroughly examine all the questions about alleged irregularities in Citibank operations. We have not found any reason to believe that we have acted illegally or unethically, as the Mexican press has argued."

The scandal puts President Ernesto Zedillo Ponce de León in a difficult spot. First of all, it threatens to detract from his efforts to revive the economy in 1996. Zedillo has also made cleaning up Mexico's legal and judicial system a priority. However, when Swiss authorities revealed on Nov. 23 they had arrested Raúl Salinas' wife, Paulina Castañón, and

'other-in-law, Antonio Castañón, when ıey tried to withdraw money from ac- ıunts in Geneva containing $83.9 mil- ɔn, Mexican law-enforcement officials ere caught flat-footed. The affair has ghlighted the shortcomings of Mexican 'osecutors, who are clearly out of their ague on such a complex case. To Zedil- 's embarrassment, U.S. and Swiss in- estigators are feeding Mexico the in- rmation that is moving the case along. exicans increasingly believe "that the ıtire investigation of the Salinas fami-

Now, Mexican executives are worried they may be pulled into the affair surrounding Raúl Salinas

...is being carried out by the U.S. ıd not by the Zedillo government," says exican political scientist Jorge Cas- ñeda, a visiting professor at Princeton niversity. "That's a damaging thing. It ill have an enormous political impact."

The Mexicans say they haven't moved gainst Carlos Salinas because they lack ridence. "The argument that we haven't ken action because we are not willing is absolutely false," says a senior gov- nment official.

Salinas has become a kind of flying utchman haunting the Zedillo adminis- ation. He had been living in self-im- ɔsed exile in New York and Montreal nce shortly after Zedillo took office. ut recently, he was spotted at a Cuban sort—using an alias. Until the issue of here Raúl Salinas' money came from ıd whether Carlos was involved is put rest, Mexico is going to have a hard me getting back to normal.

By Geri Smith in Mexico City, with my Borrus in Washington and bu- au reports

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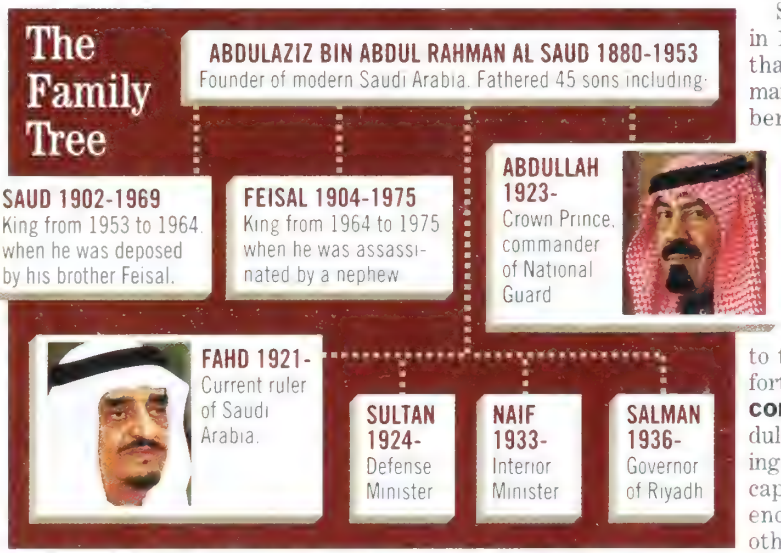
TRADE BANK

EDITED BY STANLEY REED

A PRINCELY POWER STRUGGLE COULD SHAKE THE HOUSE OF SAUD

Since 1932, when the formidable desert warrior Abdulaziz proclaimed himself king of a united Saudi Arabia, the Al Saud have wielded power as absolutely as European royal families of the Middle Ages. But the several-thousand-strong Al Saud are far from united. In fact, there is a growing danger that Saudi Arabia could be shaken by another aspect of medieval monarchy: royal-family infighting.

The serious illness that struck 74-year-old King Ibn Abdul Aziz Al Saud Fahd in late November—probably a stroke, compounded by partial kidney failure—has the potential to force long-simmering disputes over royal succession into the open. Squabbling among senior Saudi princes could complicate the tough transition already under way from a super-rich welfare society to a modern nation-state that has to live within reduced means. If the infighting gets serious, anti-Western Islamic fundamentalists could enter the fray.



The succession question has global consequences because the Saudi king holds sway over more than 25% of the planet's oil reserves as well as Mecca and Medina, the two holiest sites for more than 1 billion Muslims. For the U.S., in particular, the stakes are huge. Saudi Arabia is the largest foreign purchaser of U.S. military hardware and a key client for such multinationals as AT&T, Boeing, and Mobil. "The world will be a different place if there is serious jockeying for position among the Al Saud," says one royal family adviser in Riyadh.

If some unconfirmed reports are to be believed, a tussle has already begun between Fahd's designated successor, 72-year-old Crown Prince Abdullah, and 71-year-old Defense Minister Prince Sultan, who is considered second in line to the throne. Such reports have a certain logic because Abdullah, head of the 70,000-strong bedouin National Guard, is only a half brother of the King, while Sultan is a full brother. Saudi observers say Abdullah and Sultan have never been close.

"CRACKS ARE APPEARING." Because of their common mothers, full Al Saud brothers tend to have similar mind-sets and allegiances. For instance, Fahd and most of his six full brothers, including Sultan and Salman, the Governor of Riyadh, are considered sophisticated, capable, and strongly pro-American. Abdullah, on the other hand, is more traditional and holds his position largely because of seniority.

According to one story making the rounds, Sultan called a meeting of some of Saudi Arabia's Islamic leaders on Dec. 7 in an attempt to pull support from Abdullah—who was out of Saudi Arabia representing the hospitalized king. Such r ports have been faxed around Saudi Arabia by the Londo based opposition group Committee for the Defense of Legi imate Rights in Saudi Arabia. "Cracks are appearing," sa the committee's leader, Muhammad Massari.

Although Arab and U.S. officials discount the reports, wouldn't be the first dispute over succession to the throne. the mid-1960s, civil war almost erupted when then Crow Prince Feisal forced his dissolute half brother, King Saud, abdicate. Since that jarring episode, Saudi kings have larg ly tried to maintain a consensus among their brothers.

Since taking the thro in 1981, Fahd has damag that consensus by fillir many key posts with mer bers of his close famil known as the Al Fah Recently, Fahd h even annoyed some his full brothers by i creasingly relying his own sons and i laws—who, critics sa have used their acce to the ruler to amass hu fortunes.

CONTENDERS. Should A dullah become king or ac ing sovereign if Fahd is i capacitated, he may fa enormous pressure fro other family members rein in the Al Fahd group. There also could be tension ov whom Abdullah appoints as his heir apparent. Because of h seniority, Sultan is the likely choice, but because of cool rel tions with Abdullah, that isn't a sure thing. "The danger that Sultan, who would desperately like to become king in h own right, will feel he is losing out," says Simon Henderso author of *After King Fahd: Succession in Saudi Arabia.*

Even if the aging Al Saud brothers and half brothers resol this round smoothly, trouble will loom when the throne pass to their sons' generation. "When that happens, the who question of succession is going to be much more difficult to r solve," says Hermann F. Eilts, a former U.S. ambassador Saudi Arabia. Eilts adds that some of the younger princes a "beginning to develop constituencies for an eventual run at t throne." He warns that some contenders may seek suppo from Islamic fundamentalists, who are becoming dangero opponents of the pro-American Saudi regime. For instance, powerful car bomb in Riyadh last month at a building used b U.S. military advisers killed five Americans.

While hard to fathom, this question of succession could b as crucial to the U.S. as Iraq's invasion of Kuwait was. Th Iraqi invasion was resolved with firepower. But there's ve little the U.S. can do about royal family politics.

By John Rossant in Ron

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Giftrust† *Investors*	**49.6%**	**38.2%**	**26.9%**	**23.0%** *(11/25/83)*
Select *Investors*	**19.0%**	**11.7%**	**13.7%**	**16.6%** *(6/30/71)***
Growth *Investors*	**31.0%**	**18.5%**	**17.5%**	**18.8%** *(6/30/71)***
Heritage *Investors*	**27.3%**	**18.3%**	—	**17.1%** *(11/10/87)*

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WHERE TO INVEST '96

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THE INVESTMENT SCOREBOARD
Corporate earnings should keep chugging along in 1996—though with somewhat less steam. Which companies to pick? Here's the scoop on 900 big ones **129**

'It Doesn't Get Any Better Than This'

Investors had some ride in 1995–and there's no reason to bail out ye

What a year! The U.S. stock market soared, delivering investors a total return so far of more than 37%—the best showing since 1975. And if the market moves up a tad higher as the year comes to a close, it will be the best since 1958. Even more amazing, bonds rebounded from a horrid 1994 and racked up double-digit returns. "Savor the moment," says H. Bradlee Perry, veteran money manager and retired chairman of David L. Babson & Co., who counts more than four decades of investing experience. "It doesn't get any better than this."

Perhaps not. Markets don't make such huge gains two years in a row. But Perry isn't retreating from the financial markets, nor should you. Sure, there are always risks of a market sell-off that will unnerve some investors. But the economic backdrop that helped produce the remarkable returns—low interest rates, low inflation—is still very much in place and will not be dislodged easily.

And the financial system is flush with investable funds. For starters, there's the cash pouring into mutual funds, which in turn flows into the stock market. "That's a standing order to buy $6 billion to $8 billion in stocks a month," says William E. Dodge, investment strategist for Dean Witter Reynolds Inc. The money's likely to stay invested since much of it is in long-term 401(k) retirement accounts. Investment strategist Charles I. Clough of Merrill Lynch & Co. points to the $350 billion that investors socked into money-market funds and certificates of deposit when short-term rates were high. With the Federal Reserve almost certain to shave rates, much of that money will find its way back to the stock and bond markets, too.

To help you plan your portfolio, we bring you Where to Invest in 1996, BUSINESS WEEK's annual investment outlook. This special double issue covers the investment world. Besides the low-down on how to play the U.S. stock market (page 82), our global network of correspondents brings you the best investment ideas from Europe (page 92) to Mexico (page 96) to Japan (page 94) and the rest of Asia (page 95).

Before you start globetrotting, get yourself a solid grounding at home. Start with the economic outlook (page 64), which sketches the look of the U.S. economy in the new year. (Hint: It looks slow.) Then, our Washington correspondents bring you an analysis of what's likely to happen in the budget negotiations between President Clinton and the GOP-controlled Congress (page 70). But investors' interest doesn't end with the budget. There's plenty to watch out for as the Presidential election year unfolds.

Move on to stocks, and start by checking in with a new feature, a survey of top-flight stock market strategists from some of the leading investment firms (page 78). Who's the mo bullish? The most bearish? And what their collective wisdom? Many are st bullish on technology stocks. So are w (page 86). Prices are down, so the are good opportunities. Merger mani another major theme of 1995's sto market, should continue into 1996 (pag 89). Small-cap stocks, which did we but still trailed the big companies i 1995, may move out in front in 199 (page 88).

Want more? Pick up some leads fro the portfolios assembled by our han picked pros using th make-believe $100,000 w have asked them to inve (page 100). Don't forget t check out Inside Wa Street (page 105). An don't make a move befor reading the story tha starts on page 90 for thos stocks that ought be avoi ed. The Investment Outlo Scoreboard (page 129) pr vides plenty of data to ba those ideas up with yo own research. If you pr fer to let portfolio mana ers pick your stocks, tu to the mutual-fund revie (page 106) to find out which ones ha done the best picking of late.

Of course, there's more to investin than just buying stocks. If you're bond buyer, check out the story on pag 110 for the best deals in today's lo yield environment. You might find the among the tax-exempt municipal bon (page 114). And there are opportuniti in more tangible assets as well: co modities (page 116), real estate (pag 122) and fine art (page 124).

It may be tough to duplicate 1995 investment results. But with a fe smart ideas, you might be surprised.

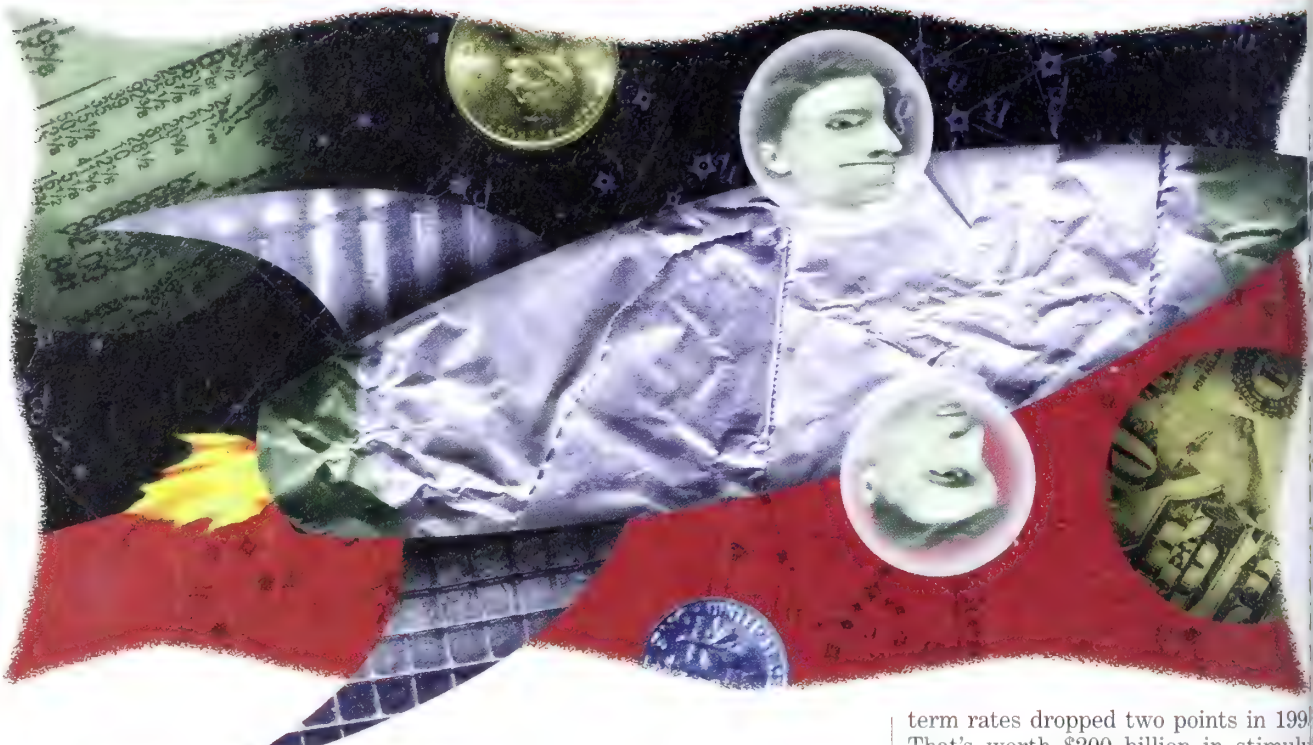
By Jeffrey M. Laderma in New Yo

CAN YOU TOP THIS?

	TOTAL RETURN* 1995	BEST YEAR SINCE...	ANNUALIZED TOTAL RETURN** 5-YEAR	10-YEAR
LARGE-COMPANY U.S. STOCKS	37.2%	1975	16.8%	12.2%
SMALL-COMPANY U.S. STOCKS	32.2	1991	24.4	12.2
LONG-TERM U.S. GOVERNMENT BONDS	28.2	1985	12.9	12.2
INTERM.-TERM U.S. GOVERNMENT BONDS	15.7	1985	9.0	9.3
TREASURY BILLS	5.1	1991	4.3	5.6

*Stocks through Dec. 11, bonds and bills, Nov. 30 **Through Nov. 30 DATA: IBBOTSON ASSOCIATES, BW

ILLUSTRATIONS BY JOYCE HESSELBERTH



Why the Expansion Still Has Legs

Mild inflation and low rates will keep recession at bay

Based on the length of past expansions, 1996 should be a year in which the economy is increasingly vulnerable to a recession. But rest easy. Sure, this expansion is an old-timer by postwar standards, and it's not nearly as spry as it was a year ago. But with the Geritol of low inflation and interest rates, there is every reason to believe the consensus view of the 50 forecasters surveyed by BUSINESS WEEK: The economy will continue to grow at a steady, if plodding, pace for the sixth year in a row (table).

Although inventories look a bit high and household debt is rising, there are no imbalances of the size that usually precede downturns. And don't worry about the budget deal. Washington's seven-year plan to balance the budget is likely to have tax cuts up front with spending cuts later on. So any fiscal drag in 1996 will be small or nonexistent. Of course, if Congress and the White House fail to come up with a credible blueprint, all bets on lower interest rates are off.

More important, inflation pressures are expected to remain practically nil and economic growth only lukewarm, so the Federal Reserve will be cutting interest rates, not raising them. Such tame inflation prospects six years into an expansion—and their impact on rates—are a key difference in this business cycle, vs. those in the past.

Low interest rates are the primary catalyst for continued growth. Long-term rates dropped two points in 199 That's worth $200 billion in stimulu over the next two years, if rates sta down. Indeed, 1995's huge jump in stoc and bond prices hardly presage ba times. As Laurence H. Meyer, head o his own St. Louis-based consulting fir notes, recessions usually follow a boom bust pattern as strong growth force the Fed to jack up interest rates in a effort to head off inflation. "This tim the Fed has effectively contained th boom," he says, "so why a bust?"

We agree. BUSINESS WEEK expect the economy will grow 2.3% next yea measured from fourth quarter to fourt quarter, a bit better than the 1.9% ave age pace expected in BUSINESS WEEK annual roundup. Note that these pr jections are based on the Commerc Dept.'s chain-weighted measure of gros domestic product, which is expected t show 1995 growth of about 2% (se box). We also believe inflation will en the year at 2.7%, close to its 1995 rat and that joblessness, although rising bit early on, will finish at a low 5.5%.

CHRISTMAS BILLS. We expect 1996 t begin slowly, as businesses continue t wrestle their inventories into bette alignment with 1995's slower pace o sales—a process that is taking longe than anticipated. Also, households wi struggle with big credit-card bills fro Christmas '95. But growth will pick u later in response to lower interest rate and renewed momentum in the manu facturing sector.

The top-performing sectors will b exports—helped by competitive gain

THE NEW GDP STATISTICS

On Dec. 19, the Commerce Dept. switches to a new measurement of gross domestic product called chain-weighted GDP. Since this gauge gives less weight to fast-growth sectors where prices are falling, such as computers, it yields a slower pace of economic growth for the most recent years compared with the old 1987-dollar, fixed-weight measure previously used. Based on economists' projections, 1995's fixed-weight GDP growth would have been about 2.8%. On a comparable basis, the forecast for 1996 would have been 2.5%.

BUSINESS WEEK ECONOMIC FORECAST SURVEY FOR 1996

	PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT (CHAIN WEIGHTED) 1996				REAL GDP	CONSUMER PRICES	TREASURY YIELDS 3-MO.	30-YR.	JOBLESS RATE
	I	II	III	IV	PERCENT CHANGE IV Q'95-	IV Q '96	1996 IV Q	1996 IV Q	1996 IV Q
IL D. FOSLER The Conference Board	3.6	2.7	3.0	3.1	**3.1**	3.9	6.50	7.90	5.3
SON BENDERLY Benderly Economic Associates	3.3	3.0	2.8	2.3	**2.8**	3.5	5.75	7.00	5.0
ARLES B. REEDER Charles Reeder Associates	1.3	1.7	3.5	4.4	**2.7**	2.7	5.10	6.00	5.8
SANNE M. CAHN CS First Boston	2.2	2.4	2.8	3.1	**2.6**	3.1	5.00	6.25	5.3
ARLES LIEBERMAN Chemical Securities	2.9	2.4	2.5	2.5	**2.6**	3.4	6.50	7.00	5.0
VID M. BLITZER Standard & Poor's	2.5	2.4	2.4	2.6	**2.5**	3.1	4.70	5.80	5.5
LLIAM BROWN J. P. Morgan	3.0	2.5	2.5	2.0	**2.5**	3.4	6.50	7.00	5.2
CHAEL W. KERAN Prudential Insurance	2.7	2.7	2.3	2.3	**2.5**	2.8	5.00	5.50	5.3
BERT A. BRUSCA Nikko Securities Co. Int'l.	3.0	2.7	2.4	1.9	**2.4**	3.4	6.30	7.05	5.2
Y C. FAIR Yale University	2.5	2.5	2.3	2.2	**2.4**	1.8	5.50	7.20	5.4
NALD STRASZHEIM Merrill Lynch	2.2	2.7	2.8	2.8	**2.4**	2.6	5.05	6.45	5.8
MES COOPER & KATHLEEN MADIGAN Business Week	1.5	2.3	2.8	2.4	**2.3**	2.7	5.05	6.30	5.5
SEPH W. DUNCAN Dun & Bradstreet	1.8	2.0	3.0	2.6	**2.3**	2.9	5.00	6.90	5.4
UART G. HOFFMAN PNC Bank	1.6	2.0	2.7	2.7	**2.3**	3.1	5.65	6.60	5.4
NALD R. REUSS Piper Capital Management	1.6	1.9	2.5	3.5	**2.3**	3.2	4.50	6.00	5.8
JL W. BOLTZ T. Rowe Price Associates	1.7	2.0	2.0	2.7	**2.2**	3.3	5.30	6.30	5.7
RRIS COHEN Morris Cohen & Associates	2.0	2.0	2.4	2.4	**2.2**	3.0	5.00	5.70	5.4
NSTANTINE G. SORAS Nynex	2.0	2.1	2.5	2.2	**2.2**	2.2	4.44	6.29	5.8
HN D. WALTER Dow Corning	1.9	2.0	2.4	2.6	**2.2**	2.2	5.00	5.90	5.6
CHAEL R. ENGLUND MMS International	2.5	2.2	1.9	1.9	**2.1**	3.4	5.20	6.00	5.1
RT E. KARL WEFA Group	2.1	2.1	2.1	2.1	**2.1**	2.5	4.60	6.30	5.9
NCY J. KIMELMAN Technical Data	2.3	2.3	2.1	1.9	**2.1**	2.4	4.90	5.25	6.0
WRENCE L. KREICHER Alliance Capital Management	2.4	2.1	1.8	2.0	**2.1**	2.9	5.25	5.75	5.7
ROL A. LEISENRING CoreStates Financial	2.0	2.0	2.4	2.5	**2.1**	2.5	4.80	5.40	5.9
URENCE H. MEYER Laurence H. Meyer & Associates	2.4	2.3	1.8	1.8	**2.1**	2.8	5.00	6.30	5.8
CHAEL R. PASLAWSKYJ CIT Group	1.7	2.3	2.4	2.0	**2.1**	2.6	5.00	6.00	5.7
GER BRINNER DRI/McGraw-Hill	2.3	2.1	1.9	1.9	**2.0**	3.1	5.08	6.25	5.7
VID C. MUNRO High Frequency Economics	2.0	2.4	2.3	1.2	**2.0**	2.7	5.60	5.90	5.4
IN REASER First Interstate Bank	1.9	2.0	1.9	2.0	**2.0**	2.9	5.30	6.20	5.8
VID RESLER Nomura Securities International	1.8	2.5	1.8	2.0	**2.0**	2.6	4.70	5.80	5.9
ELINA M. TAINER Indosuez Carr Futures	2.0	1.8	1.8	2.2	**2.0**	2.8	4.80	6.75	6.0
TER L. BERNSTEIN Peter L. Bernstein	1.0	1.3	1.7	3.8	**1.9**	2.4	4.30	5.70	5.7
THONY CHAN Banc One Investment Advisors	2.4	2.4	1.9	0.8	**1.9**	3.0	4.95	5.75	5.7
URY N. HARRIS PaineWebber	2.2	2.0	1.7	1.6	**1.9**	2.8	5.10	6.00	5.6
MES W. COONS Huntington Bancshares	2.0	1.8	1.7	1.6	**1.8**	3.1	5.00	6.10	5.9
HEATHER DILLENBECK U.S. Trust	2.2	1.8	1.6	1.5	**1.8**	3.4	4.50	6.00	5.4
LLIAM W. HELMAN Smith Barney	1.6	1.5	1.8	2.1	**1.8**	3.0	5.00	6.25	6.0
CHOLAS S. PERNA Fleet Financial Group	1.7	1.4	2.2	1.8	**1.8**	3.0	5.10	6.40	5.9
NALD RATAJCZAK Georgia State University	2.2	2.1	1.4	1.4	**1.8**	2.8	5.17	6.12	5.3
NIEL E. LAUFENBERG American Express Advisors	2.0	1.4	1.9	1.6	**1.7**	3.9	4.50	6.10	5.9
CKEY D. LEVY NationsBanc Capital Markets	1.4	1.6	2.0	2.1	**1.7**	2.2	4.70	5.70	5.8
VID L. LITTMANN Comerica Bank	1.7	1.8	1.7	1.6	**1.7**	2.7	4.75	5.90	6.1
VID ORR First Union	1.6	2.0	1.5	1.2	**1.6**	2.3	4.70	5.65	5.9
RL PALASH MCM MoneyWatch	1.5	1.0	2.0	2.0	**1.6**	3.0	5.00	6.00	5.5
CHELLE COLLEY LAUGHLIN Sanwa Securities (USA)	0.5	1.5	1.3	1.5	**1.2**	2.7	5.40	6.00	6.5
BERT T. McGEE Tokai Bank	0.5	1.0	1.0	1.5	**1.0**	2.4	4.25	5.20	6.0
ILIP BRAVERMAN DKB Securities (USA)	1.5	1.0	1.0	0.0	**0.9**	2.0	4.70	5.00	5.9
UREEN F. ALLYN Scudder, Stevens & Clark	1.3	0.8	–2.0	–2.1	**–0.6**	3.0	4.50	5.70	6.4
BERT H. PARKS Robert H. Parks & Associates	0.0	–2.0	–2.0	0.0	**–1.0**	1.5	3.50	4.90	7.5
GARY SHILLING A. Gary Shilling & Co.	–2.3	–3.6	–3.0	–0.5	**–2.3**	2.2	3.00	5.00	7.4
NSENSUS	1.9	1.8	1.9	1.9	**1.9**	2.8	5.01	6.09	5.7

from past investments and a healthy world economy—and capital spending for equipment as businesses invest heavily, if a bit more slowly, in technology. Also, lower interest rates will underpin the housing and durable goods sectors.

New technology is at the heart of another year of solid, if less robust, gains in corporate profits. "Good profit growth in a slow-growth, low-inflation economy is testimony to all the cost-cutting, the strong investment spending with its focus on productivity, and the benefits from the technology revolution," says Donald H. Straszheim of Merrill Lynch & Co. The mix of decent earnings and low interest rates should keep Wall Street percolating.

Corporate America's new competitiveness is the chief reason why exports will continue to be a growth leader, at least matching their 10% pace of 1995. At the same time, imports will slow, reflecting modest demand in the U.S. The result: an improving trade deficit that could add handsomely to GDP. "World growth prospects are decent, and Mexico should be less of a drag," says C. Heather Dillenbeck, a consultant to U.S. Trust Co. One area to keep an eye on, however, is Europe. Germany, the Continent's lead economy, was surprisingly weak in the second half of 1995, and economists are lowering their 1996 projections. Japan's prospects are improving, and East Asia will continue to post strong growth.

CONSENSUS? NOT. The dollar should remain firm as world financial markets reward U.S. steps toward fiscal responsibility and the Fed's inflation control. The buck, which has strengthened recently vs. the Japanese yen and the German mark, will continue to do so, but it will not rise so much as to harm the competitiveness of U.S. exporters.

At home, the ongoing substitution of capital for labor will limit consumer spending. Job and income gains will continue to slow as household debt increases. "But as long as employment is least growing," says Constantine G. S ras of Nynex Corp., "rising debt shou not be a concern." Also, the labor ma ket should stay tight enough to genera wage gains above inflation, a boost f many consumers' real pay. Anoth round of mortgage refinancings may al help household budgets.

Of course, you'll never get 100 agreement from 50 economists. Ma reen F. Allyn of Scudder, Stevens Clark Inc. expects a recession to beg by the middle of the year. She blames sharper than expected falloff in corp rate profits. "That leads to layoffs ar falling income growth, which expos household debt problems," she say causing consumers to pack it in. It's scenario that deserves some though But with low inflation and low rates support 1996 growth, recession seen more like a worry for 1997.

By James C. Cooper and Kathlee Madigan in New York

TOP GURU

Expect a So-So '96 if Munro Is on the Money Again

Almost all of last year's crystal-ball gazers correctly forecast continued expansion in 1995, but projecting healthy growth along with falling interest rates was a feat accomplished by just a handful. The most accurate of last year's 50 was David C. Munro, chief domestic economist of High Frequency Economics Ltd., a consulting firm in Valhalla, N. Y. For the second year in a row, economic consultant Morris Cohen placed second, with David Resler of Nomura Securities International Inc. rounding out the top three.

BEST OF 50 FORECASTERS: *And no fancy degree*

Munro says that a 1995 forecast of 2.5% growth in real gross domestic product, measured by the old 1987-dollar, fixed-weight method, was an easy call because "policymakers were focusing on sustainable growth," thought to have been 2.5% based on the old GDP. At the same time, Munro believed that several factors would hold down inflation and interest rates. His rationale: "Corporate restructurings have been unlike anything we have ever seen. Corporations in 1995 were trying to make profit targets by controlling costs, not by price markups." And, he says, consumers turned more hawkish about accepting price hikes.

HEARTLAND PRAGMATIST. Because Munro views these factors as shifts in the structural makeup of inflation, he says that consumer prices will rise 2.7% in 1996, about the same as in 1995. He also expects increased consumer spending, more homebuilding, and stronger exports, so real GDP will grow 2%, considered by some to be the fastest noninflationary rate possible under the new chain-weighted method. Inventories, which swung sharply in 1995, will rise more smoothly. Munro's forecast is almost smack-dab in the middle of the latest survey (page 65), making his an average '96 forecast.

What does make Munro unusual among chief economists is that he lacks an advanced degree. Instead, he says, he "toiled as an apprentice in applied economics" at the Council of Economic Advisers, working his way up to senior staff economist before switching to General Motors Corp. and then joining High Frequency four years ago. Learning by doing has made the Midwest native "a pragmatic analyst" who doesn't kowtow to any particular economic school of thought. As Munro will likely agree, accuracy—not ideology—is what matters.

By Kathleen Madigan in New York

HOW DID SOMETHING SO LARGE AND HARD TO MOVE GET WHERE IT IS TODAY? A QUESTION TO ASK YOUR INSURANCE COMPANY.

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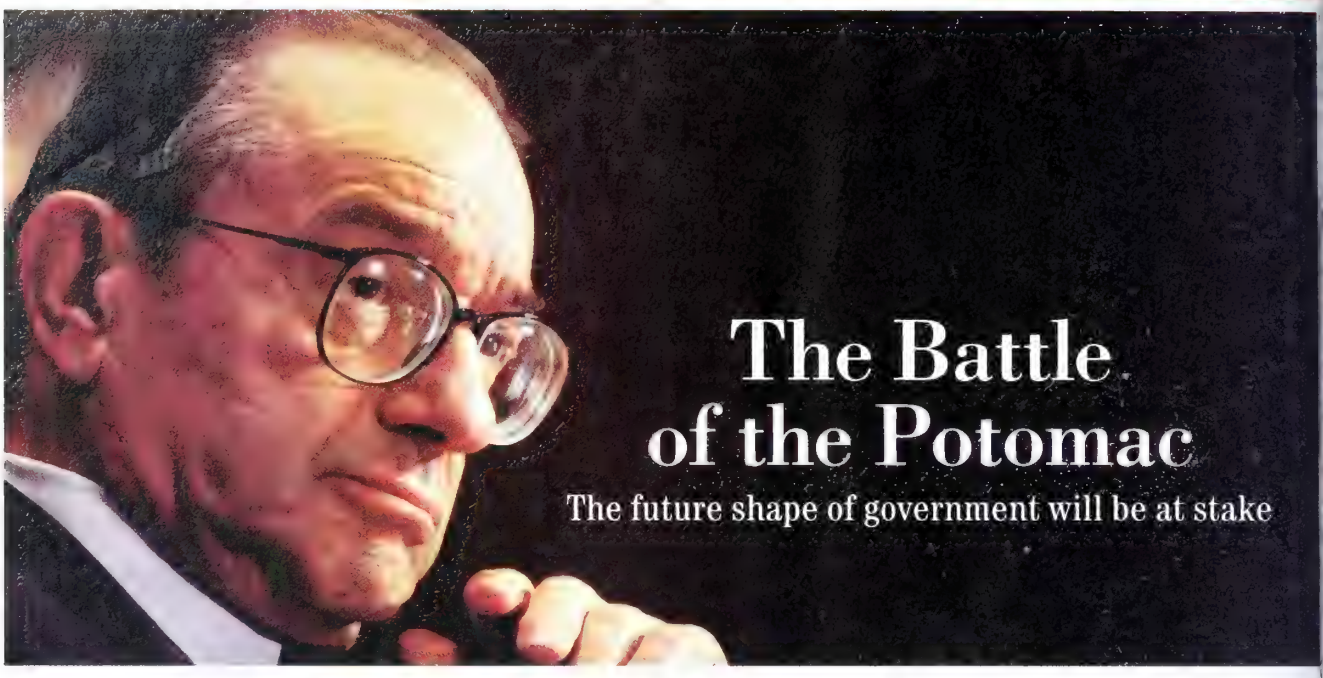


The Battle of the Potomac

The future shape of government will be at stake

For investors in 1996, the wheeling and dealing on Wall Street could well pale beside the action on Pennsylvania Avenue. Take a look: There will be a titanic struggle for budget supremacy between President Clinton and congressional Republicans, a heated debate over the future of the income tax, and new battles over federal spending. Add to that a further restructuring of the NASDAQ market, unfinished squabbles over the scope of federal regulation, and an interest-rate cut or two by a Federal Reserve that's getting more confident that it's winning the battle against inflation. And for an end-of-year finale, investors can look forward to the 1996 Presidential and congressional elections.

The betting is that 1995's fiscal wars will end with a deal to balance the budget by 2002. The bitter debate over fiscal policy, though, will eventually be overshadowed by the year's major issue—nothing less than the future shape of the federal government. That debate will not only dominate the 1996 election but also affect investors' portfolios.

RICH AND POOR. Republicans will press their case that prosperity depends on shrinking government and regulations while cutting taxes. The Democrats will insist that Washington should still play a key role in providing social services, aiding education, training workers, and protecting the environment. Clinton will claim credit for an economy that's growing moderately with low inflation and will urge a national effort to narrow the gap between rich and poor. The debate won't be just rhetoric—it will affect the legislative agenda. Even with a balanced-budget agreement, which would establish only a framework for eliminating red ink, Congress must still make the actual cuts in programs in '96 and each successive year to keep the deficit moving toward zero.

MONETARY POLICY

If the pols deliver on deficit reduction, Greenspan has promised to offset the drag of slower federal spending with easier money

If a budget compromise is engineered by White House Chief of Staff Leon E. Panetta and the Republican Congress, it should produce immediate dividends in the form of lower short-term interest rates. True, the Fed resents the popular perception that it would cut rates as a quid pro quo for a balanced-budget plan. "I very much dislike that thinking," says Fed Governor Janet L. Yellen. Even so, Chairman Alan Greenspan has promised for years that he would ease monetary policy to offset the economic drag of slower federal spending. If Washington delivers on deficit reduction, Greenspan & Co. can be counted on to meet their end of the bargain.

THIRD TERM. Monetary mandarins at the Fed hardly need an excuse to cut rates. Although the central bank doesn't expect a recession, it sees an economy starting to sag under the weight of high consumer debt and big factory inventories. With growth expected to slow in '96, the Fed believes it can cut rates without losing ground in the hard-fought battle to keep inflation at less than 3%. "I'm prepared to predict inflation is not going higher," insists Fed Vice-Chairman Alan S. Blinder.

As a result, the Fed is expected to cut the 5.75% federal funds rate (the key rate it sets for overnight loans between banks) by half a percentage point

CAPITAL ISSUES

SPENDING Reaching an agreement to balance the budget is the easy part. In '96, the Democrats and Republicans will have to begin really slashing spending—to turn the promise of deficit-reduction into reality.

TAXES Over the next few weeks Congress and President will reach a deal or a modest tax cut. In 1996, the focus will shift to a long-term overhaul of the federal tax code, as Republicans lay the groundwork for serious reforms in 1998, should they regain the White House.

ɔre spring. By then, Clinton will like-
ave rewarded Greenspan's steward-
ı of the central bank by nominating
to a third term as chief—welcome
's to the markets. After that,
enspan will probably move the Fed
he sidelines to keep the central bank
of next fall's election-year crossfire.
f news on the interest-rate front is

XES

ɜ tax code will get
rhauled eventually,
a flat tax, like the
ɜ endorsed by House
jority Leader Armey,
ks like a long shot

BUDGET

If a compromise is struck by White House Chief of Staff Panetta and Congress, it should pay an immediate dividend: lower interest rates

d for investors, prospects on taxes
decidedly mixed. In the short run, a
ital-gains tax cut still looks like a
d bet as part of any budget agree-
ıt. The same can't be said for many
ɜr goodies included in earlier ver-
ıs of the GOP budget. An effort by
ıse Ways & Means Committee Chair-
ı Bill Archer (R-Tex.) to index capi-
gains to inflation has been put off un-
the year 2000 and could well be
pped. A broad expansion of individ-
retirement accounts will probably
scaled back, as will GOP efforts to raise gradually—from $600,000 to $750,000—the amount that estates can transfer to heirs free of federal tax.

Even the long-awaited cut in capital gains may disappoint some investors. The GOP plan, which would reduce the top rate from 28% to 19.8%, was supposed to apply to assets sold anytime in 1995. But the prospect of a retroactive date has been dimming. That means market players may be better off waiting until '96 to take profits—if they're willing to risk a market correction that could eat up some of their gains.

One group of investors should act now. The GOP plan would treat investment losses less generously than current law: It would require $2 of losses to offset $1 of ordinary income, twice the current ratio. "Go ahead and take those losses," says Tom Jackson, a tax partner at Deloitte & Touche.

These proposals are mere tinkering, compared with some radical reforms the GOP has in mind. Archer says 1996 will "mark the beginning of the end of the current income tax code." In January, a GOP-chartered commission headed by former Housing & Urban Development Secretary Jack F. Kemp is scheduled to release recommendations for a simpler system. Later in the year, the House Ways & Means and Senate Finance committees plan to hold hearings on overhauling the tax code. "The flat tax will cause a lot of excitement," says Thomas P. Ochsenschlager, tax partner at accountants Grant Thornton.

Among the plans on the table: versions of a national sales tax offered by Archer and Senator Richard Lugar (Ind.), who is a Republican long shot for the White House, and a flat-rate income tax proposed by House Majority Leader Richard Armey (Tex.) and GOP Presidential hopeful Steve Forbes. Clinton, who has yet to be heard from on the tax reform debate, is likely to counter with a plan to simplify the existing code. But he will resist calls for a complete rewrite of tax law.

FEE BASIS. How will the tax debate turn out? Don't be surprised to see a Tax Reform Act of 1998 that looks a lot like the landmark tax legislation of 1986, which kept the income-tax system but lowered rates and trimmed many deductions.

More big news for investors will come from the Securities & Exchange Commission. The agency will turn up the pressure on firms to overhaul the way they pay brokers—moving from a system driven by sales commissions to one incorporating advisory fees. The SEC will also raise the stakes in its current review of the NASDAQ stock market. NASDAQ's recent proposal to recruit more outsiders for its board of directors and create an independent regulatory arm won't be enough to satisfy SEC Chairman Arthur Levitt Jr. New SEC initiatives would likely narrow spreads in the over-the-counter market to make the differences between dealers' buying and selling prices comparable to those on other exchanges.

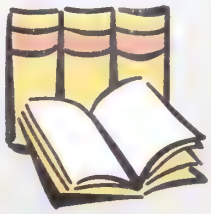
In one respect, '96 should be easier for investors than '95. Instead of waiting until the end of the year to figure out how Congress may affect their portfolios, market players will probably know earlier in 1996 what's in store for them. That's because legislative action starts to grind to a halt as the November election approaches. But the pause will be only temporary. The great ideological struggle that began with the GOP's taking control of Congress in 1995 will play itself out for years to come.

By Dean Foust and Howard Gleckman, with Amy Barrett, in Washington

. RESERVE With the economy
ı, look for the central bank to
rest rates, especially if
gton agrees on a balanced
Chairman Alan Greenspan
will then move
the Fed to the
sidelines for
the rest of '96
—out of election-
year political
crossfire.

FINANCE The SEC will continue to push for big changes in the NASDAQ market, in an effort to narrow the spreads for small investors in over-the-counter stocks. In addition, the Supreme Court will rule on the issue of whether states can keep banks out of the insurance business.

REGULATION Despite all the GOP promises, very few regulatory reforms were enacted in '95. The Republicans will try again in '96, focusing their efforts on negotiating bipartisan changes in environmental laws and health-and-safety regulations.



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An Investor's Guide to the 1996 Financial Horizon

BUSINESS WEEK's experts offer the lowdown on everything from inflation to merger mani

For this annual double issue, BUSINESS WEEK asked its economic and market experts to come up with their best bets for 1996. How should investors play the election-year gamesmanship in Washington? Which technology stock will fare the best after the great boom of 1995? What is the most attractive investment opportunity overseas? And what's the most likely company to be swept up in merger mania over the next year? This is what our reporters came up with:

THE ECONOMY

The odds-on best economic bet for 1996 is continued low inflation, despite an unemployment rate of only 5.6%. The reasons are structural rather than cyclical. First, investment in new technology is enhancing productivity growth and holding down costs, enabling companies to keep prices low. At the same time, corporations face increasingly intense competition. Cheap imports continue to grab a record share of domestic demand. And the competition from overseas is spilling over into other markets. The best example: the proliferation of warehouse stores and other retail discounters, which has made consumers newly hawkish about higher prices. Finally, the Federal Reserve under Chairman Alan Greenspan has made clear that it will not allow a reacceleration of inflation, and Greenspan looks like a shoo-in for reappointment.

In this environment, inflation cannot and will not accelerate from 1995's pace of about 2.8%. As a result, another best bet for 1996 is low interest rates, led by Fed rate cuts of between a half-point and a full point. This will assure that 1996 will be another good year for Wall Street and that the U.S. will stay recession-free.

By James C. Cooper and Kathleen Madigan

WASHINGTON

For investors, 1996 is shaping up to be the year of the Great Tax Debate. Washington will be consumed with talk about overhauling the U.S. tax code. But with real change not likely in the coming year, market players would be wise to resist the temptation to start fiddling with their portfolios until the fine print becomes clear. The best bet is not to bet on the passage of any specific piece of tax legislation.

Republicans will be promoting a bevy of competing tax-reform plans during the '96 campaign, including some form of a flat tax. Hoping to exploit voters' disgust with the current system and the Internal Revenue Service, the GOP hopes to put President Clinton on the defensive—so far, he has been lukewarm to the idea of overhauling the tax code.

But there will be no serious effort to pass a tax-reform bill until 1997 or 1998. With all the political fuss, it may be hard for investors to stay on the sidelines, but there's no need to react to proposals which may never see the light of day. "Individuals shouldn't worry too much," says Clint Stretch, director of tax legislation at accountants Deloitte & Touche. "The details of the bills they are looking at now just don't resemble what will come out in the end."

By Howard Gleckman

BONDS

Bond investors shouldn't expect an exciting year. With rates at a two-year low and inflation stable, most economists and fixed-income strategists aren't forecasting much movement in yields anytime soon. Their advice: Get used to single-digit coupons.

The best buy of the year could turn out to be mortgage-backed securities cluding Ginnie Maes, which now y about 7%, predicts William H. Gr managing director of Pacific Investm Management Co. But he advises w ing until the Federal Reserve has short-term rates before buying.

Investors wanting safety and liqui should think about notes in the interm ate, five- to seven-year range. Becaus the relatively flat yield curve, inves don't gain much by going to 10 year even 30 years. For highly taxed indiv als, the top pick is clearly municipal bo Of the tax-free closed-end funds, Tho J. Herzfeld, head of Miami's Thoma Herzfeld Advisors Inc., likes Dreyfus ifornia Municipal Income Fund and Municipal Premium Income Trust.

By Phillip L. Z

MUNICIPALS

Selectivity sh be the watchw for muni inves in 1996. High yi and scant new s ply should help, federal budget and a weaker tional economy may hurt state and l finances. Plus, fears that tax reform c eliminate their tax-exempt status c depress muni prices.

How to cope? Stick to bonds issued projects that taxpayers will finance matter what, such as revenue bonds sued for water and sewer projects. avoid bonds issued for projects, such convention centers, that could be vul able to an economic slowdown.

If you're looking for bargains, consi munis insured by MBIA Inc. or anot insurer. Today, AAA-rated insured bo offer higher yields than some bonds r AA without insurance. But be careful– sured bonds may not be as easy to s says Richard J. Moynihan, who overs $27 billion in muni funds at Dreyfus C That risk and others will make muni vesting tricky in 1996. For the intre though, there are some good buys.

By Kelley Holl

LARGE-CAP STOCKS

Wal-Mart was never Wall Street's favorite place to shop, but it sure was the favorite retailer in which to invest. But nearly three years ago, Mart Stores Inc. fell from favor as 'owth rate slowed, and the company ıed a costly expansion. The stock, at is 26% below its all-time 1993 high, though earnings are 50% higher. 995's red-hot market, the stock ·d only 11%.

ɔw, Wal-Mart deserves another look, ts fans in the investment commu- It's overpowering the competition. ral discount chains in the Northeast ı bankruptcy, and rival Kmart Corp. the ropes. At the same time, Wal- has continued to invest in productiv- ıhancing technology. More important, Mart is still growing at a steady 15%, than twice the average company's al growth rate, yet it sells at 16 s next year's expected earnings. 're getting a superior company at an ıge p-e ratio," says Ronald C. Steele, olio manager of the UST Master Pro- vity Enhancers Fund. In a slow- th environment, Wal-Mart's superior th rate should command a premium -earnings ratio, and the stock could y double in the next year.

By Jeffrey M. Laderman

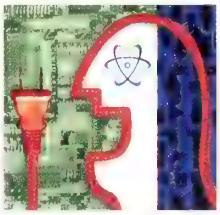
SMALL-CAP STOCKS

The magic of the telecommunications revolution seems to have missed Century Telephone Enterprises. Offering local-exchange and cellular telephone ce throughout 14 Midwestern states, stock of the Louisiana-based concern anguished over the past year while ɔverall market has soared.

ıt Century is worth watching in . For one, its revenues and profits been averaging double-digit per- ıge increases for several years. More- , a third of its profits now comes cellular operations, a positive de- ɔment. At a recent p-e of 14½ times nated 1996 earnings, the stock is ing at a substantially lower multiple larger telephone companies such as South Corp. and GTE Corp., giving it ı to rise. And once telecom reform ·s through, Century could turn out to n attractive buyout target: The stock, $31, could be worth $45 per share.

By Geoffrey Smith

TECHNOLOGY STOCKS



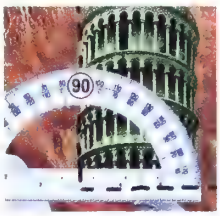
Investors may be wary of technology stocks after their runup in 1995. But here's one that's a genuine value: Platinum Technology Inc. The Oakbrook Terrace (Ill.) software developer trades at 15$^{13}/_{16}$, about 14 times 1996's expected earnings.

Why so cheap? Platinum is undergoing a makeover, branching out from developing mainframe database utilities to programs for managing client-server networks, making databases more accessible and developing applications. And it's getting into the new businesses by acquiring smaller software companies.

"That's always risky," admits Frank Michnoff, software analyst at Donaldson, Lufkin & Jenrette Securities Corp. But if it works, Michnoff believes Wall Street will recognize the company's growth potential. By Michnoff's estimation, the stock could double in the next 12 months.

By Jeffrey M. Laderman

GLOBAL MARKETS



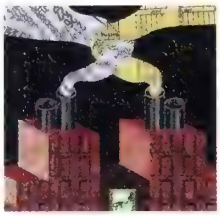
Money gurus who scour the globe for high potential returns largely agree: Interest rates will fall further in Europe than the U. S. over the next year. With inflation contained and growth still sluggish across the Continent, central bankers are likely to treat their economies to a healthy shot of monetary stimulus. As a result, key short-term rates in Europe could ease by as much as three percentage points, compared with an expected quarter-point in the U. S.

That prospect spells opportunity in the bond markets of Europe. "Yield spreads are pretty wide between European bonds and their U. S. equivalents," says Robert J. Haddick, manager of the $488 million Fremont Global Fund, which invests in a mix of U. S. and international securities. Besides higher income now, such bonds could offer hefty capital gains as yields fall.

One downside: A significant rise in the greenback could offset gains in non-U. S. bonds and stocks alike. That means dollar-based investors should be careful to hedge any foreign holdings against dollar appreciation in 1996. One way to protect yourself against such an event is to buy shares in a global fixed-income mutual fund that hedges, such as Franklin Templeton Hard Currency Fund.

By Joan Warner

MERGER TARGETS

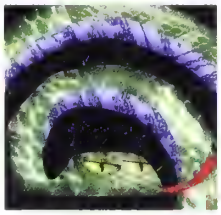


Last year's best takeover bet, Pet Inc., was acquired before the first half of 1995. From this year's batch of potential targets, some savvy pros are betting on Washington National Corp., which provides individual and group health insurance, disability insurance for teachers, and individual life insurance and annuities. Currently trading at $25 a share, it could be worth at least $35 in a buyout, figures investment strategist Michael E. Metz of Oppenheimer & Co. The company posted revenues of $657 million last year and has a book value of $33 a share.

The stock has been dormant for some time now, trading at a low valuation of about eight times earnings. But the insurance business has become so competitive, several big money managers note, that Washington National needs to either merge or sell itself to a larger insurer. Moreover, says Metz, management realizes that it needs to do something to enhance the stock's value. "It's a sleeper among the takeover candidates, and I won't be surprised at all if it gets acquired in mid-1996," he says.

By Gene G. Marcial

SHORT SALES



Of all the Internet stocks, NETCOM On-Line Communications offers the best opportunity for aggressive short-sellers. The San Jose (Calif.) company, which went public a year ago at $13 a share, now trades at $52—a three-bagger, as Peter Lynch would say. NETCOM provides Internet services to those who want it. Dial into NETCOM, and for $30 a month you get unlimited connect time. A good deal, compared with the major online services, such as America Online Inc. and Prodigy Services Co.

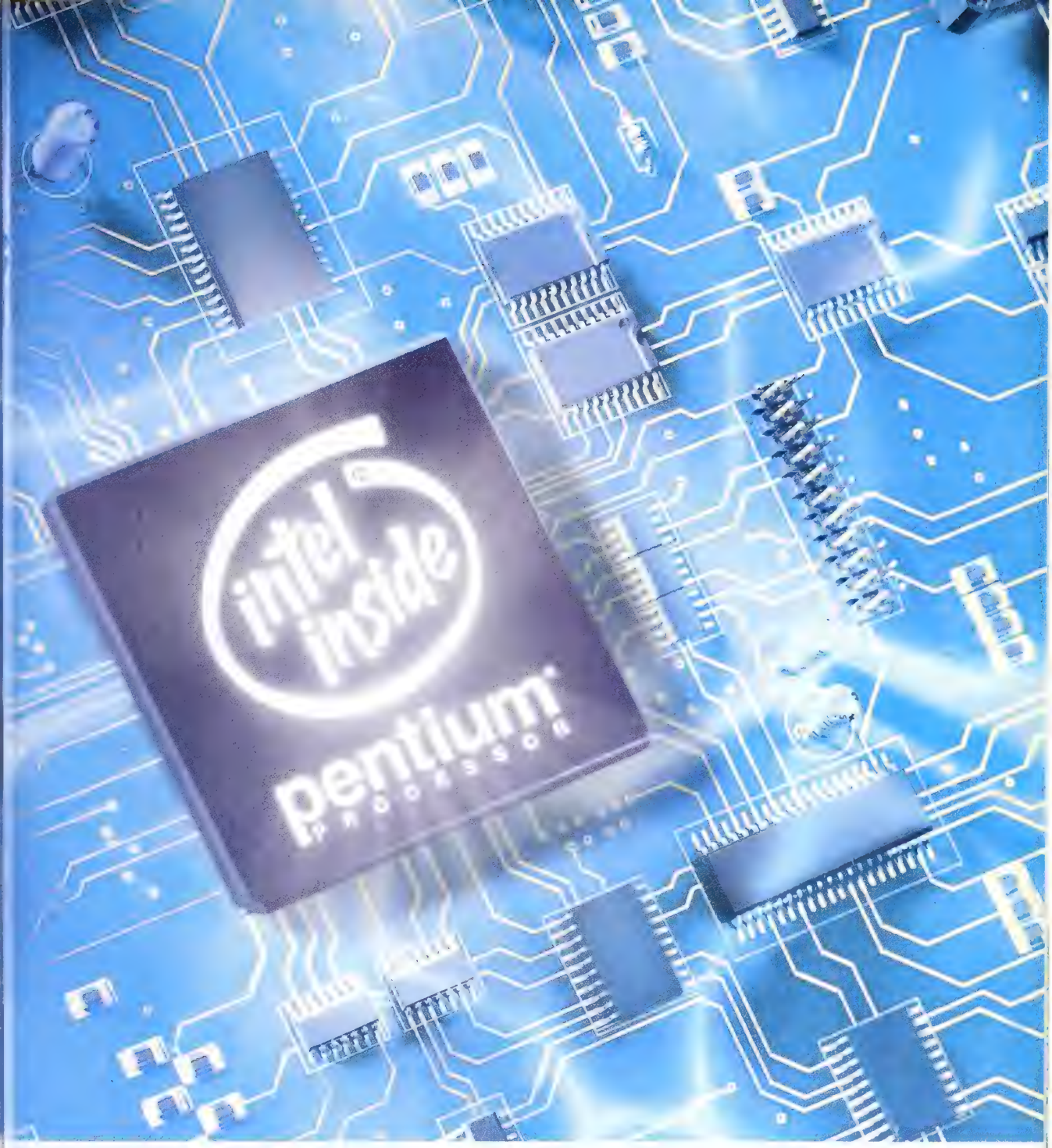
NETCOM is in the red this year, but its fundamental difficulty is competition—and not just with the big boys. NETCOM competes with dozens of smaller Internet providers throughout the country, which can offer the same service for much less. The large services will eventually cut prices as well, creating enormous problems for NETCOM. But be warned: If you're thinking of shorting NETCOM and other Internet stocks, remember that these companies have a way of defying gravity—and can squeeze shorts like an overripe lemon.

By Gary Weiss

The right processor fo

pentium

Whether you're doing financial analysis or creating a multimedia presentation, choosing an Intel Pentium processor-based PC is a smart move. That's because today's business



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995 Intel Corporation. Source: COMPUTEX Snapshot Measure of Relative Total Microprocessor Performance, Intel Corp., 1995

Can It Go On Like This?

Top stock strategists see only a 5% rise in the Dow–but not everybody's downbeat

As the stock market climbs to ever-greater heights, investors are becoming more anxious about where to put their dollars. To find out what leading market strategists are telling their clients, BUSINESS WEEK inaugurated its first annual survey of the top stock market strategists and chief investment officers at the nation's leading securities firms.

The debut of BUSINESS WEEK's market forecast survey found strategists taking a decidedly cautious stance. They expect, on average, a gain of just 5% for the Dow Jones industrial average in 1996—about half its average growth per year over the long term. The hot sectors in 1995—technology, financial, and health-care stocks—are still expected to beat the broad index, say the strategists. But this year's wallflowers, such as energy, consumer staples, and gold, are gaining fans.

"RISKY BREW." Strategists are skittish about forecasting 1996's market. "The year is a wild card," says David B. Bostian Jr., investment strategist and chief economist for New York-based Herzog, Heine, Geduld Inc. He cites a "risky brew . . . of uncertainty about fiscal and monetary policies in Washington, weakness in the debt-encumbered consumer sector, and the beginning of that most volatile of all periods—a Presidential election in both the U.S. and Russia." He thinks the Dow could drop to 4,700 by midyear and end 1996 up just 2%. On average, strategists recommend having 61.5% of one's portfolio in stocks. Bostian, however, is telling investors to begin the new year with just 40% in stocks—and 25% in cash.

Another prominent bear is Oppenheimer & Co.'s E. Michael Metz. He thinks the Dow will be at 4,805 a year from now and recommends starting 1996 with 40% in cash. Metz expects inflation to rev up in 1996. His favorite sector? Gold. Metz thinks that lower short-term interest rates worldwide will lessen the opportunity cost of holding gold and stem selling by central banks.

A handful of strategists foresee double-digit gains for the Dow. One is Dain Bosworth Inc.'s Robert F. Dickey, who looks for a 22% gain. "I see no evidence that the long-term market is making any kind of final top," says Dickey, although he expects a sell-off in coming months: "We'll have a quarter of pain, and then the market will start back up with a vengeance." Dickey, who recommends keeping 70% in stocks, expects the action to be in small-cap growth stocks. He thinks the NASDAQ Combined Composite index will rise 35%.

Even strategists forecasting a tough investment environment see plenty of opportunities. "Energy could be a big surprise," says Natwest Securities Corp.'s Peter J. Canelo. "I think the production of oil is at a maximum an demand will be stronger." According t David Shulman of Salomon Brother Inc., "investors will begin to realize tha a secular upswing in oil field capit spending is under way." Anthony J Dwyer of Josephthal Lyon & Ross Inc who expects a big sell-off in the sec ond half of 1996 from a Dow that rise to 5,900 at midyear, likes the en ergy grou especially offshore drilling rig contracto Global Marine Inc.: "As the marke nears a peak, energy is usually the las sector to move up." Still, strategists clear favorites are computer and elec tronics stocks.

Last year, the pundits were als down on the market. And as a result many of them missed out on one of th greatest bull markets in history. Afte such a dazzling run, hedging one's bet is a strong temptation. But as 199 clearly showed, not being in the marke can cost a pretty penny.

By Suzanne Woolley in New Yor

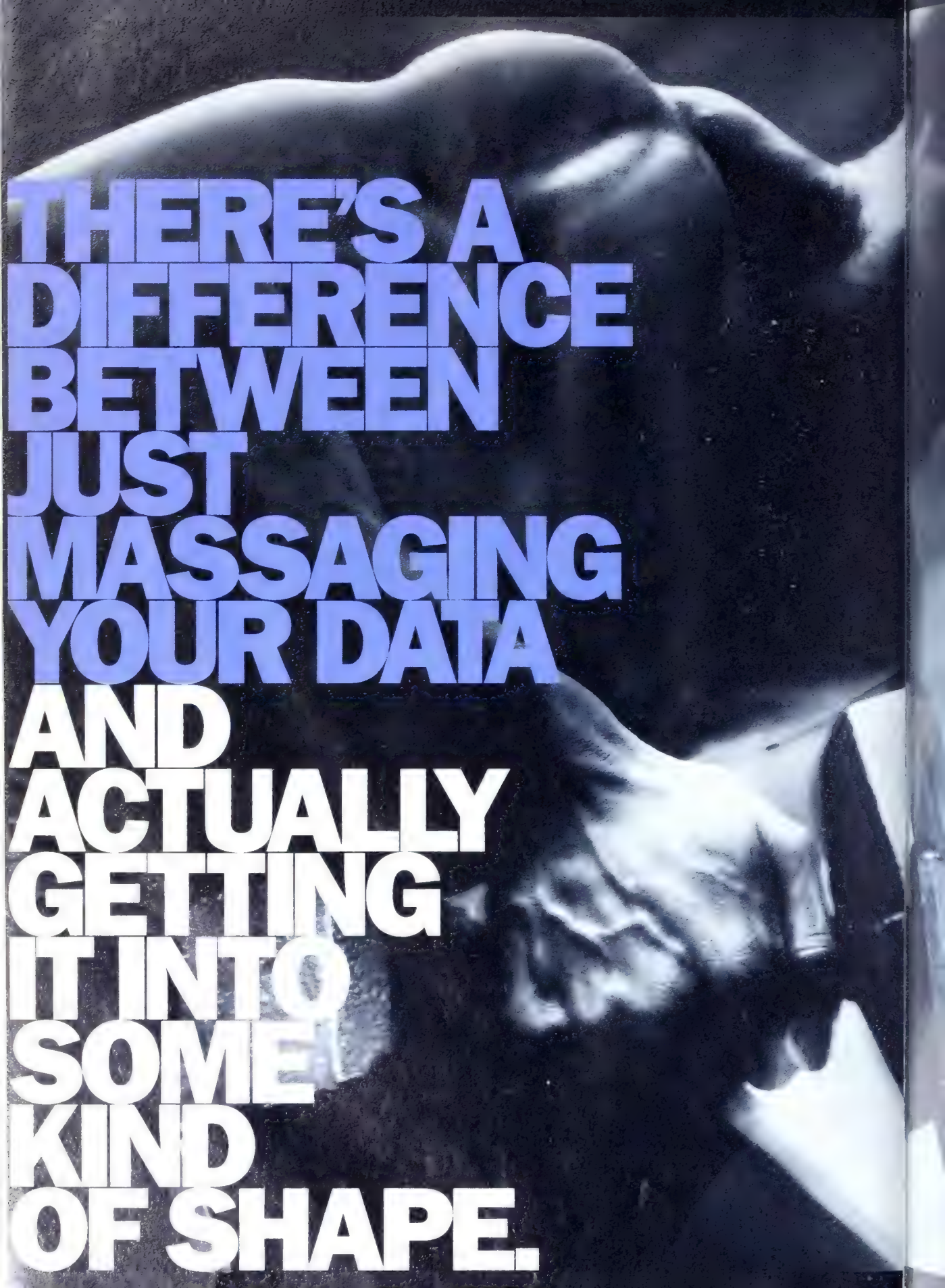
TOP STRATEGISTS FORECAST THE 1996 STOCK MARKET

ME/FIRM	DOW JONES INDUSTRIAL AVERAGE 6/30/96	DOW JONES INDUSTRIAL AVERAGE 12/31/96	NASDAQ COMBINED COMPOSITE 6/30/96	NASDAQ COMBINED COMPOSITE 12/31/96	ASSET ALLOCATION STOCKS	ASSET ALLOCATION BONDS	ASSET ALLOCATION CASH	OUTPERFORMING STOCK SECTORS*	FAVORITE STOCK
THONY F. DWYER Josephthal Lyon & Ross	**5900**	5200	1150	1070	65%	25%	10%	E, IC, R	Global Marine
IBERT B. RITTER Ladenburg Thalmann and Co.	**5750**	5500	1250	1125	70	30	0	F, IC, T	Adobe Systems
GENE E. PERONI JR. Janney Montgomery Scott	**5650**	5400	–	–	100	0	0	E, F, IC	Input/Output
TER ANDERSON IDS Advisory	**5600**	5900	1080	1120	60	40	0	F, IC, T	Compaq Comp.
CHARD DAVIS Rauscher Pierce Refsnes	**5600**	5100	1200	1000	55	40	5	CD, R, T	Tandy Corp.
EG A. SMITH Prudential Securities	**5600**	6000	1150	1250	50	50	0	CS, S, T	Silicon Graphics
JACKSON CS First Boston	**5550**	5125	1075	975	60	30	10	CS, E, H	First Data Corp.
RSHALL ACUFF Smith Barney	**5500**	5900	1150	1250	60	30	10	Growth	McDonald's Corp.
SEPH BATTIPAGLIA Gruntal & Co.	**5500**	6000	1155	1200	70	30	0	H, IC, T	Philips Elecs.
CHARD E. CRIPPS Legg Mason Wood Walker	**5500**	4850	1100	900	65	25	10	CS, H	Fisher Sci. Intl.
IL M. DUDACK UBS Securities	**5500**	5500	1200	1100	65	25	10	F, R, U	Motorola
WARD P. NICOSKI Piper Jaffray	**5500**	5100	1200	1050	60	30	10	F, H, S	Stryker Corp.
HN J. WHITE Interstate/Johnson Lane	**5500**	5600	1160	1200	50	40	10	CS, F, T	Policy Mgmt. Sys.
FFREY M. APPLEGATE Lehman Bros.	**5450**	5800	–	–	70	30	0	F, IC, T	Applied Materials
TER J. CANELO NatWest Securities	**5450**	5900	1150	1235	70	30	0	E, IC, T	Caterpillar
O CHALASANI EVEREN Securities	**5450**	5400	1130	1100	60	20	20	E, IC, T	Newell Co.
IC MILLER Donaldson Lufkin & Jenrette	**5450**	4860	1100	935	50	40	10	E, F, H	Cellular Comms.
NNIS TELZROW Principal Financial Securities	**5450**	5750	1190	1220	60	30	10	E, F, T	Tandy Corp.
ARE W. ZEMPEL Robert W. Baird & Co.	**5365**	5585	1135	1185	60	35	5	E, IC, S	Lunar Corp.
SEPH H. BARTHEL Fahnestock & Co.	**5350**	5700	1235	1360	90	10	0	E, S, U	Sea Containers
VID D. HOLT David Holt Investment Services	**5350**	5800	1100	1210	70	20	10	CD, R, T	Reynolds Metals
OMAS M. KERESEY Palm Beach Invmt. Advisers	**5340**	5200	1100	1045	65	30	5	CD, CS, H	CUC International
N NIEDZIELA Kirkpatrick Pettis	**5316**	5599	1175	1203	64	25	11	E, IC, R	The Rival Co.
VID A. HENWOOD Raymond James & Associates	**5305**	5410	1161	1115	55	35	10	CS, H, S	Laidlaw Inc.
IBERT F. DICKEY Dain Bosworth	**5300**	6300	1200	1450	70	20	10	E, R	U.S. Surgical
FRED GOLDMAN A.G. Edwards & Sons	**5300**	5500	1150	1200	75	20	5	E, F, H	Home Depot
N R. HAYS Wheat First Butcher Singer	**5300**	5400	1230	1400	90	0	10	CD, IC, T	Alcoa Intl.
ILLIAM L. PATERNOTTE Alex. Brown & Sons	**5300**	5800	1150	1250	60	30	10	CD, H, T	Vencor Inc.
IBERT S. ROBBINS The Robinson-Humphrey Co.	**5300**	5600	1100	1180	60	35	5	F, H, T	Olympic Financial
WARD G. RILEY JR. Private Bank/Bank of Boston	**5250**	5450	1095	1125	50	40	10	CD, E, R	Cifra SA
ARLES J. PRADILLA Cowen & Co.	**5200**	5500	1105	1175	50	40	10	F, H, T	Boeing
GH JOHNSON First Albany	**5150**	5300	1060	1100	60	40	0	CD, E, IC	Glenayre Tech.
VID SHULMAN Salomon Brothers	**5150**	5350	950	1050	50	35	15	E, H, R	Dresser Industries
YMOND H. DIGGLE JR. First of Michigan	**5000**	5500	1200	1300	40	40	20	E, F, H	Compaq Comp.
RRY DOMBCIK McDonald & Co.	**5000**	5500	1000	1175	75	20	5	CS, H, S	Brightpoint
MICHAEL METZ Oppenheimer & Co.	**4970**	4805	1205	1005	30	30	40	E, H, IC	Homestake Mining
HN H. SHAUGHNESSY Advest Group	**4950**	5450	1025	1160	60	35	5	F, H, T	Boston Technology
VID B. BOSTIAN JR. Herzog Heine Geduld	**4700**	5300	950	1150	40	35	25	F, H, T	General Electric
RC DION Ziegler Asset Management	**4600**	4700	910	970	50	40	10	CS, E, S	Diebold
B BROWN Ferris, Baker Watts	**4590**	4080	936	832	40	30	30	Gold	American Brands
M REGNER Kemper Financial Services	**4500**	4750	800	900	80	20	0	H, S, T	Bowater
BY JOSEPH COHEN Goldman, Sachs	–	5600	–	–	60	25	15**	F, IC, T	Dean Witter Dis.***
NSENSUS	**5305**	5430	1113	1133	61.5	29.4	9.1		

D) Consumer durables: autos, housewares, recreation/luxury **CS**) Consumer staples: foods, beverages, tobaccos, household goods **E**) Energy: oil, natural gas **F**) Financials: banks, thrifts, insur ce, real estate **H**) Health: pharmaceuticals, health-care services, medical devices, drug wholesalers **IC**) Industrial cyclicals: aerospace, construction, machinery, machine tools, chemicals, met- , papers **R**) Retail: all retail (except drug wholesalers) **S**) Services: media, entertainment, personal and business services, waste management, transportation **T**) Technology: computer hardware tware, electronics, electrical equipment **U**) Utilities: phones, electric, gas utilities

Allocation includes 5% in commodities *** Equal favorites include Home Depot and Intel

DATA: BW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Low Rates, High Stock Prices: It's Not Just a Phase

The Dow is bound to keep climbing–but the rise won't be as dazzling as last year

Watch the Dow Jones industrial average racing along north of 5000. See the Standard & Poor's 500-stock index cut through the 600s. Catch the NASDAQ Composite with its extra digit, now that it's over 1000. Get used to the numbers: It's the stock market's new math.

The math may be new, but the fundamentals are old and familiar: corporate earnings and interest rates. In that light, the stock market's amazing performance in 1995 is easy to explain. Profits proved surprisingly strong, up about 18% on the S&P 500. Most pundits expected more modest earnings gains. But what no one had predicted a year ago was the spectacular drop in long-term interest rates that slashed the yield on the benchmark 30-year U.S. Treasury bond from more than 8% to today's 6%. The confluence of events could wind up making 1995 the best year for equities in 20 years, and the second-best in nearly 40 years.

No stock market can sustain that kind of performance for two years, so the prognosis for 1996 is more muted. More important, the fundamentals aren't in place for anything so dramatic. The U.S. economy will be sluggish in 1996, with gross domestic product growing at about 2%.

That means corporations will be hard pressed to generate the big bottom-line increases they achieved in 1994 and 1995. Operating profits won't fall off a cliff, but they could well come in around 6.5%—the long-term average for profit growth. Assuming no change in interest rates, that would send the market up 6.5%. Add to that a 2.5% dividend, and you come up with a 9% total return.

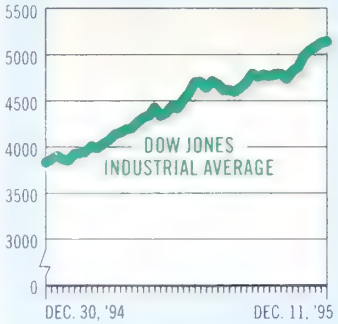
Suppose investors begin to realize that the decline in rates isn't just a knee-jerk reaction to a slowing economy. Instead, what if they come to the conclusion that low rates are here to stay? This means that the investment climate has made a once-in-decades shift that uproots many of the commonly held assumptions about investing. "People who think stocks are too high are using standards set when we had double-digit interest rates," says Edward M. Kerschner, chairman of the investment policy committee at PaineWebber Inc.

STILL UNDERVALUED? The new era of low rates and lofty stock prices is based on solid economic fundamentals. Inflation, while not eradicated, has been tamed because the U.S. government—and the governments of nearly all major industrial nations as well—are trying to get their fiscal policies under control. Inflation remains in check, too, because of increasing global competition that forces corporations to become leaner and more productive and figure out ways to make money other than by hiking prices.

The impact of interest rates on stocks is enormous. In fact, as far as stocks have come in the last year—1350 points on the Dow, 160 on the S&P 500—many analysts believe the stock market is still undervalued relative to bond yields. How much? Just look at the curve in the chart that relates interest rates to price-earnings ratios (page 83), as calculated by Kerschner. When 10-year U.S. government bonds yield 7%, the S&P 500 should have a p-e of only 13. If it were lower, stocks would be cheap; higher than 13, expensive.

Interest rates and p-e ratios are inversely related. When rates go up, p-e ratios go down and vice-versa. Drop the yield from 7% to 6%, and the p-e balloons from 13 to 18. Go down just a quarter of a percentage point more, t 5.75%—the current 10-year yield—an the p-e jumps to 20. Depending on you 1996 earnings assumption, the estimate of the p-e run from 14 to 18. So whil investors might argue about how under valued stocks are, the point is that equ ties are still cheap. "The more interes rates come down, the more bullish I be

THE DOW'S RIVETING RISE



DATA BLOOMBERG FINANCIAL MARKETS

ıe," says market analyst Elaine M. 'zarelli of Garzarelli Capital Inc. Her ecast for yearend 1996 is especially ıeat: 6300 on the Dow, and 740 on S&P 500.

)f course, theoretical valuation mod- are not ironclad guarantees. They just useful guideposts for inves- s. And undervalued stocks and mar- s can always become more underval- l, too. After all, the stock market n't had more than a 3.3% pullback he 1995 rally, nor has it undergone ɔrrection of 10% or more since 1990. ven in a bull market, you can get a 5-to-15% correction at any time," s Van Harissis, a portfolio manager Phoenix Duff & Phelps. "I'd say re long overdue."

FOR GROWTH. If and when that pull- k comes, the stock market's new th will make it seem scary. But re- mber, with the Dow over 5000, 100 nts is a move of less 2%. And all it would take to send the Dow down 100 is an average loss of a little more than one point in each of the 30 Dow stocks. But so long as the inflation and interest-rate backdrops remain favorable, smart investors should take advantage of sell-offs and add to their holdings.

The best investments in a slow-growth economy are "growth stocks"—the shares of companies whose earnings growth is reliable, steady, and much faster than that of the stock market in general. Most of the rip-roaring high-tech companies fall in this category (page 86). So are many big consumer goods companies, including Coca-Cola, Eastman Kodak, Gillette, and Procter & Gamble. Even though growth is slow at home, these giants have bright prospects because of their ability to sell overseas.

"People worldwide genuflect at the altar of brand-name products," says analyst Brenda Lee Landry of Morgan Stanley & Co. As consumers' incomes rise in the economically emerging nations, she says, they typically buy the products these companies sell. "The fundamentals for these companies look the best they have since the early 1970s."

While most of the big global growth stocks have moved up, they're still worth buying. For instance, Phillip H. Brown II, president of Meridian Investment Co. recently bought Procter & Gamble Co. The reason: the p-e based on 1996 earnings is about the same as the S&P's, but he thinks P&G earnings gains will be about twice that of the market. The market is asking no premium now for P&G's superior earnings growth.

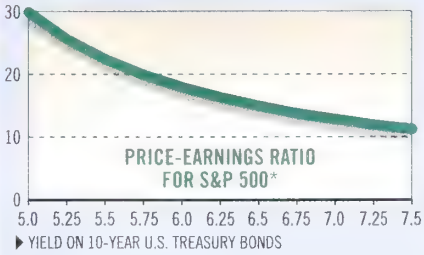
But in a slow-growth, low-inflation world, investors will eventually pay that premium. That's when growth stocks really pay off. Look at what happens to p-e ratios of growth stocks under various scenarios (table). PaineWebber's Kerschner, who prepared this analysis, is working on the assumption that the market's long-term earnings growth rate is 6.5% and the p-e based on 1996 earnings is 17.5. Under such assumptions, a company with a steady long-term growth rate of 10%, like P&G, could justify trading at 22 times earnings—a p-e 26% greater than the S&P 500's. Suppose the S&P p-e moves up to 20. P&G's p-e could go to 26.

With faster-growing companies such as Wal-Mart Stores, with a 15% growth rate, or Home Depot, with 20%, the p-e ratios could expand even more. That's because with low inflation, the future earnings those companies will generate are worth much more in today's dollars. A company with a solid 15% long-term growth prospects rate could command a p-e of 31 and one with 20% growth a p-e of 43.

Lofty valuations, for sure. But if the investor-friendly environment of low inflation and low interest rates stays in place, these high p-e ratios will become part of the stock market's new math.

By Jeffrey M. Laderman in New York

HOW INTEREST RATES SHOULD MOVE P-Es



*ASSUMES LONG-TERM 6.5% GROWTH OF CORPORATE OPERATING PROFITS

WHAT'S THE RIGHT P-E FOR A STOCK?

EARNINGS GROWTH RATE*	S&P 500 PRICE-EARNINGS RATIO 12.5	15	17.5	20	22.5
10%	15	18	22	26	30
15%	19	25	31	37	45
20%	25	33	43	54	67

*10-year growth estimate

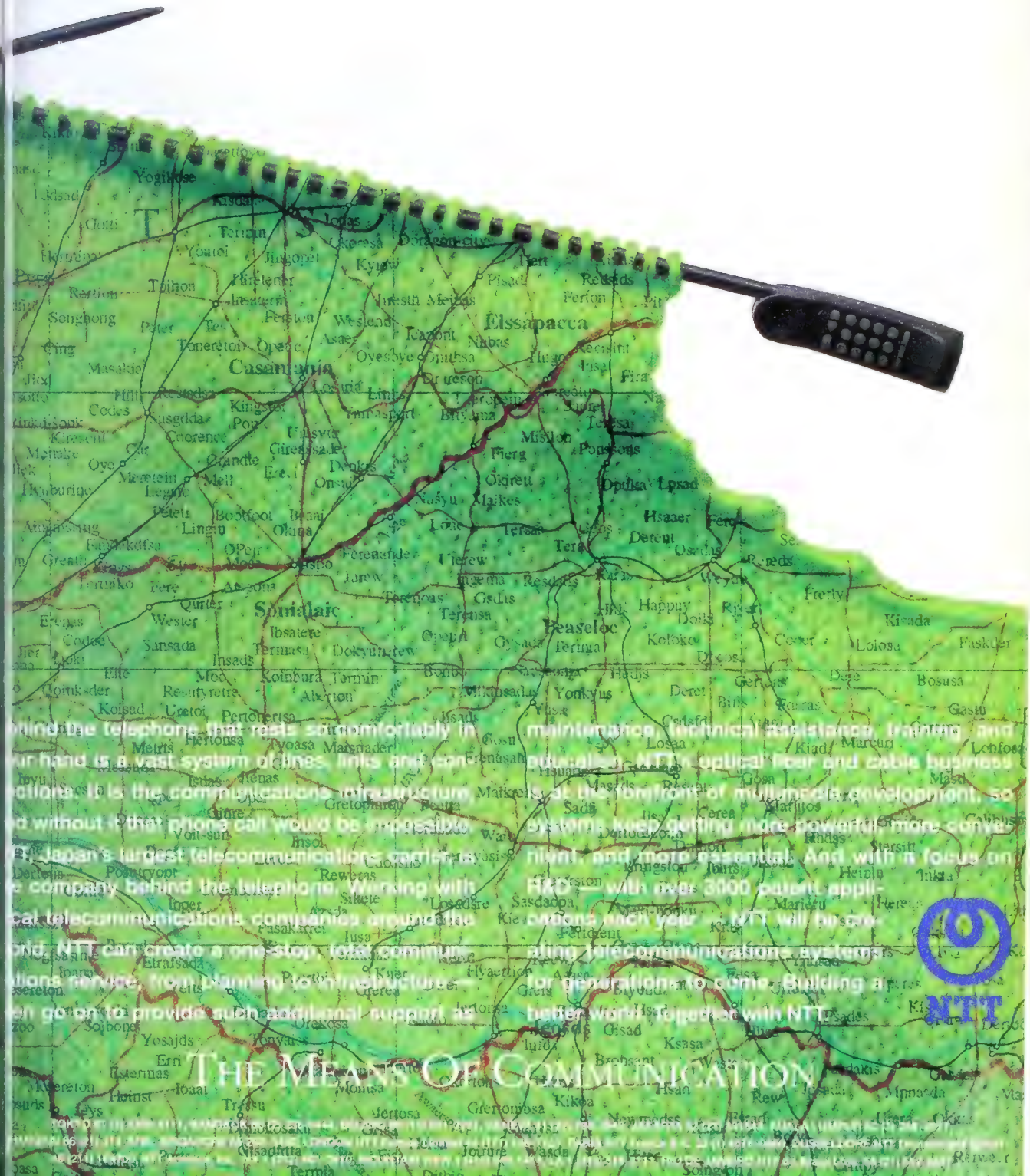
DATA: PAINEWEBBER INC.

ACTION

ADD AWAY

As long as interest rates and inflation look favorable, take advantage of sell-offs

Building Telecommunications Systems That Help Build A Better World.



The Means Of Communication

Behind the telephone that rests so comfortably in your hand is a vast system of lines, links and connections. It is the communications infrastructure, and without it that phone call would be impossible. Japan's largest telecommunications carrier, the company behind the telephone. Working with local telecommunications companies around the world, NTT can create a one-stop, total communications service, from planning to infrastructures — even going on to provide such additional support as maintenance, technical assistance, training and consulting. NTT's optical fiber and cable business is at the brightest of multimedia developments, so systems keep getting more powerful, more convenient, and more essential. And with a focus on R&D — with over 3000 patent applications each year — NTT will become a leading telecommunications systems for generations to come. Building a better world. Together with NTT.

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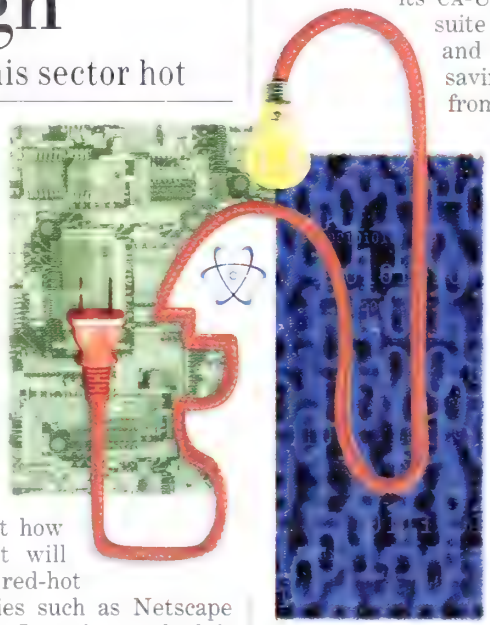
Tech's Temperature Will Stay High

Networking and software should keep this sector hot

Investors who have been smart or lucky enough to own technology stocks are licking their chops. Even after a recent retreat, tech-stock indexes have more than doubled—and many stocks have tripled, quadrupled, or more since the juggernaut got started in mid-1994. But is tech still smart for 1996?

You bet. "We're only in the middle of a long, multiyear technology cycle," says analyst Robert Austrian of Morgan Stanley & Co. Indeed, the popularization of the Internet and online services as a communications and commercial vehicle is in its infancy. The linking of computers into networks as a productivity-enhancing tool also has a long way to go. Companies that can capitalize on these trends are well-poised for further gains, and investors can buy many of the stocks well below their 1995 highs (table).

Although many tech stocks have pulled back, not much looks cheap. But what defines "cheap" for a technology stock is how it is priced relative to where the market thinks it's going, not where it has been. For instance, everyone agrees the Internet is an opportunity of mammoth proportions. But just how much revenue it will produce for the red-hot Internet companies such as Netscape Communications Inc. is anybody's guess. Charles A. Morris, who runs the T. Rowe Price Science & Technology Fund, estimates that Netscape, at 123, is valued as though it were a software company with annual revenues of $1 billion. That is pretty rich for a company whose third-quarter sales were $21 million. If Netscape reaches $2 billion in a few years, today's price will in retrospect be a steal. But if growth falls short, watch out below.



BREWING JAVA. That's why Netscape and its ilk are speculative. There is less risk but still plenty of potential reward for investors in more established companies such as Bay Networks, Cisco Systems, Sun Microsystems, and 3Com. All are leaders in designing and manufacturing the hubs, routers, and switching gear that link computers to networks. In addition, Sun developed the Java programming language that many believe will become standard for the Internet. "All these companies are going to do extremely well," says John C. Levinson, who runs a tech-stock hedge fund at Lynch & Mayer In

The New Year should also be pro itable for software companies—mainl those that serve the corporate rathe than the home user. Levinson think Computer Associates International In in Islandia, N.Y., has a winner i its CA-Unicenter softwar suite for client server and will also realiz savings and synergie from its acquisition o Legent Corp Analyst Fran Michnoff of Don aldson Lufki Jenrette Secur ties Corp. say that the little known Platinur Technology In should reap re wards from it makeover.

Absent fror many buy list are semiconduc tor stocks, eve though thei prices are dowr "Be wary c companies whos chips are commodity items that plu into a PC," says Morris.

But there's more to semiconductor than Pentium and memory chips. Mor ris likes companies whose products ar more proprietary or ar geared toward network rather than PCs, such a Analog Devices, LSI Logic Maxim Integrated Products and Xilinx.

William D. Witter, whos eponymous firm makes con siderable technology invest ments, is a major sharehold er in the Israeli compan Tower Semiconductor Ltd By making chips for compa nies such as Hewlett Packard, Motorola, an National Semiconducto Tower's fate, Witter figures, isn't tied t the life cycle of any one product. Witte says Tower also benefits from a probus ness government policy: a low 20% ta rate on profits and a hefty 38% sub sidy for capital investment.

Witter says he'll consider any stoc with good growth prospects at a rea sonable price. But his biggest holding are all tech stocks. The reason is simple he says: "That's where the growth is."

By Jeffrey M. Laderma in New Yor

ACTION

CHIP SHOT
Go for makers of microchips that tie to networks

HIGH-TECH PLAYS

COMPANY	1995 HIGH	RECENT PRICE	P-E RATIO*
NETWORKING			
BAY NETWORKS	50	44⅞	31
CISCO SYSTEMS	89⅞	79⅞	32
SUN MICROSYSTEMS	49⅞	48	21
3COM	53⅞	42	26
SEMICONDUCTORS			
ANALOG DEVICES	39⅞	35⅞	18
MAXIM INTEG. PROD.	83⅞	66⅞	20
TOWER SEMICOND.	36	25⅞	11
XILINX	55	28⅞	21
SOFTWARE			
BMC SOFTWARE	51	41⅞	17
COMPUTER ASSOCIATES	66⅞	62⅞	22
INFORMIX	34⅞	27⅞	27
PLATINUM TECHNOLOGY	26	15⅞	14

*Based on estimates for 1996 or fiscal years ending in 1996

[illegible] FINANCIAL MARKETS, NELSON'S RESEARCH, ZACKS INVESTMENT RESEARCH

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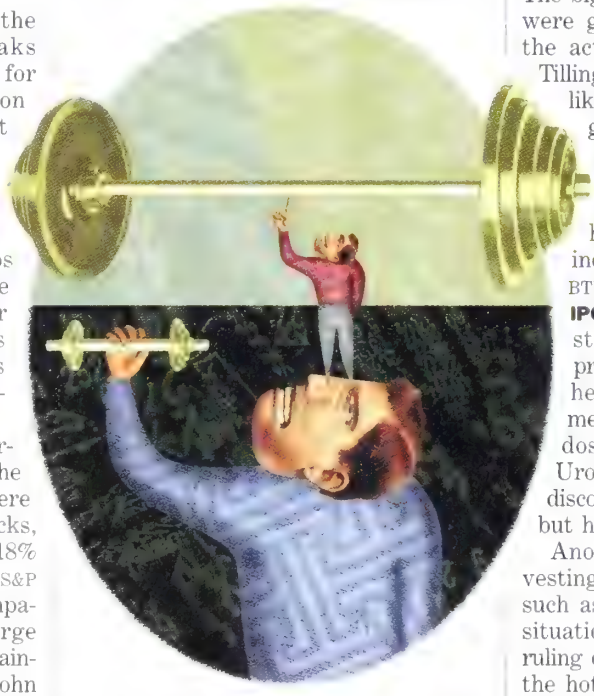
TRANSAMERICA

Little Things Could Mean a Lot Again

Small-caps, laggards in '95, are poised to regain ground

It's hard to be disappointed by the stock market when it breaks records steadily all year. But for investors in small-capitalization stocks, there was reason to feel a bit shortchanged. In 1995, while the Standard & Poor's 500-stock index turned in a 37% total return, the Russell 2000 delivered 26%. Despite starting the year strong, small-caps stalled in September, just before the market exploded. So much for the old saw that small-cap stocks usually outperform big stocks because they tend to be faster-growing companies.

But small-cap pros think the market tide may finally turn in 1996. The biggest big-cap winners this year were large high-tech and consumer stocks, which led a spectacular increase of 18% in the earnings of companies in the S&P 500 index, while Russell 2000 companies' earnings were up 16.5%. Large companies will be hard-pressed to maintain that momentum in 1996, says John W. Ballen, who manages $3.7 billion in small- and midcap portfolios for Massachusetts Financial Services Co. Ballen believes small-cap earnings will outperform large-cap earnings next year.



Another reason to favor small-caps is low interest rates. "Investors have little reason to stash money in low-yielding savings accounts or CDs," says Roland W. Gillis, lead manager for Putnam's $8.8 billion Voyager fund. "Investors are going to wake up and realize that the days of high yields are over and they're going to start paying up for equities," Gillis predicts, adding that small growth stocks will be big beneficiaries. Low interest rates will also boost earnings at small companies, which tend to benefit more from lower rates than large companies because it's easier for them to borrow, says Joel C. Tillinghast, manager of Fidelity Investment Co.'s $3.2 billion Low-Priced Stock fund.

SMALL-CAP PICKS FOR 1996

	CURRENT PRICE	P-E RATIO*
FINANCIAL		
FIRST BANK PUERTO RICO	19½	7
COMMERCE GROUP	21¼	8
UNITED INSURANCE	17¼	11
HEALTH CARE/MEDICAL		
OXFORD HEALTH	18¼	33
HEALTH SOURCE	65	30
BOSTON SCIENTIFIC	43	28
RETAIL		
CLAIRE STORES	18¼	11
RITE AID	30½	14
GENERAL NUTRITION	22¼	15

*Based on 1996 earnings

But a bit of caution is in order. "The [small-cap] market may start off the year on shaky ground," says Claudia E. Mott, a quantitative analyst and small-cap guru at Prudential Securities Inc. One warning sign: The price-earnings ratio of the Russell 2000 is 32.5% higher than its 16-year average, and not far below peaks in 1982 and 1993, when the small-cap market had big corrections. Mott is also concerned about the prospect of lower capital-gains taxe being passed by Congress early nex year. Both times that Congress lowere capital gains in the past—in 1978 an 1981—small-cap stocks tanked at leas 17% in the first three months after th change, as investors locked in highe profits on stock sales.

Still, small-cap specialists tend to b bottoms-up stock-pickers, and they se strong company fundamentals ahea The biggest small-cap winners this yea were growth stocks, and that's wher the action is expected to be in 199 Tillinghast, a top Fidelity stock-picke likes a mix of finance and technol gy. In financials, his favorites ar First Bank of Puerto Rico, Com merce Group, and United In surance. In the technology are his picks include semiconducto industry suppliers Cohu Inc. an BTU International Inc.

IPO HYPE. Gillis, another growth stock disciple, sees health prospects in other sectors, includin health care and retail. He like medical equipment companies En dosonics, Boston Scientific, an UroMed. In retail, he's wary of mos discount stores and restaurant chains but he likes Bed, Bath & Beyond In

Another approach to small-cap in vesting is to avoid "hot money" sector such as high tech and focus on speci situations. Many managers aren't ye ruling out initial public offerings—one o the hottest parts of the small-cap mar ket—and anticipate more big winner early next year. But the hype is gettin thick, and "it's definitely starting to loo more risky," says Tillinghast.

Wayne J. Archambo, a small-cap spe cialist with Boston Partners Asset Man agement LP, which manages $5 billion i institutional assets, says he avoids IPO altogether. He's moving money int more stable ground, such as retailin and industrial companies. He likes dia per maker Paragon Trade Brands Inc which he thinks will benefit from soft ening pulp prices and a price increas from competitor Procter & Gamble Co Archambo's picks include Granite Con struction Inc., which he expects to ben efit from an upcoming referendun among California voters to repair road and bridges.

Companies such as Granite are typi cal of the "niche" approach often use by small-cap investors, and that will b an important theme in the next yea With big company profits expected t slow markedly, 1996 may prove to b the year of the small-cap.

By Geoffrey Smith in Bosto

More Options...

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Update file

SCHUSSING THE PINE-DOTTED *Rockies at 11,000 feet brings a lump to the throat and an appetite to the belly.*

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The Whisper Stocks of 1996

A slow-growth economy will stoke merger mania

A year ago, just as 1994 was winding down, BUSINESS WEEK exhorted those who failed to catch the fast-moving takeover ex- ss to hop aboard for yet another nzied ride in 1995. And that's exact- what happened. But don't think for a ment things will slow down. The ac- sition pace could be even more in- se in 1996.

n this low inflation, slow growth nomy, companies are find- it hard to increase sales, they are anxious to buy rket share through acqui- ons, says E. Michael Metz, investment strategist at penheimer & Co. The idea to generate savings "by shing costs from redundan- s," explains Metz. More- r, foreign companies are ger to do deals now that dollar appears to have tomed. Metz accurately ecast the buyout resur- ice of 1994 and 1995.

RFECT PAIR. Banking has n a merger hot spot. But e merger game isn't over ," says George Salem, a vet- n banking analyst at Ger- Klauer Mattison & Co., a w York securities firm. em's top buyout picks: Wa- via Corp., with 489 offices in orgia and the Carolinas; nkAmerica Corp., the na- n's second-largest bank hold- company; and NationsBank rp., the third-largest.

Salem expects Wachovia to rge with SunTrust Banks . Both institutions would nefit greatly, he says, from merger of equals because y have so much overlap in ir business lines and geo- phic locations. He's also con- nced that "a BankAmerica- tionsBank deal is more ely now than, say, six nths ago" because of a few ent developments at Bank- America, including the departure of some key executives.

In technology, Apple Computer Inc. and Western Digital Corp. lead the pack as takeover baits. Apple, an oft-rumored takeover target, has become more attractive lately because there is no more takeover premium in the stock price. Apple has dropped to 38, after hitting 50 in June on takeover speculation.

Stuart Shikiar, who heads Shikiar Asset Management, says investors are woefully disappointed in the absence of an Apple deal. But he thinks that either Hewlett-Packard Co. or IBM will eventually gobble up the computer maker sooner rather than later. Other pros believe Sony Corp. and Motorola Inc. are also preparing to bob for Apple.

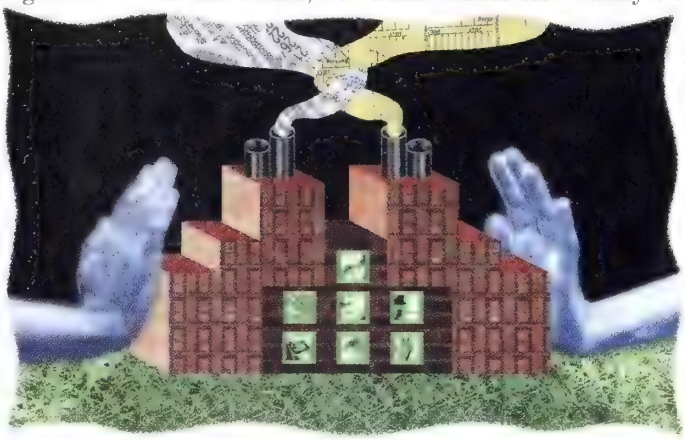
Drugs were also hot in 1995. Among the new year's bets: Allergan Inc., a global health-care provider that makes specialty therapeutic products for eye and skin care as well as neuromuscular disorders; Alza Corp., which develops and tests, through joint ventures with larger companies, a variety of drug products; and Acuson Corp., which makes medical diagnostic ultrasound imaging systems.

PAC-MAN ATTACK. Boise Cascade Corp., an integrated paper and forest products company, is the pick of paper industry analyst Kazi Hasan of Premier Consulting. He is convinced that Georgia-Pacific Corp. or leveraged-buyout giant Kohlberg Kravis Roberts & Co. will move to acquire Boise. Now trading at 36 a share, Boise is way undervalued, he believes, in part because 80% owned Boise Cascade Office Products Corp. alone is worth 20 a share in Boise stock. The Boise unit, which went public in April, is now trading at 42 a share.

At first glance Brooke Group Ltd. appears to be an unlikely takeover play. But certain arbitrageurs believe that Brooke, whose Liggett Group Inc. division makes such cigarettes as Chesterfield and Lark, may face a Pac-Man attack from RJR Nabisco Holdings Inc. That means that RJR will scoop up Brooke in order to get rid of Brooke's chairman and CEO, Bennett S. LeBow, and financier Carl C. Icahn. The two men jointly own 4.8% of RJR's stock and threaten to wage a proxy fight to unseat RJR's board. RJR spokeswoman Carol J. Makovich says that the company doesn't comment on rumors.

The takeover game is for the brave of heart. But with forecasters cautious about the stock market's prospects in 1996, the smart investor may well consider a portfolio of takeover bets—risky or not.

By Gene G. Marcial in New York



TAKEOVER TARGETS

STOCK	52-WEEK HIGH	52-WEEK LOW	RECENT PRICE	TAKEOVER VALUE
ACUSON	$17	$10⅛	$11	20
ALLERGAN	33¾	25¾	31	45
APPLE COMPUTER	50⅛	33⅝	38	60
ALZA	27	17⅝	22	40
BANKAMERICA	68½	39⅛	68	90
BOISE CASCADE	47½	23	33	60
BROOKE GROUP	14	2 33/64	7¼	15
CONRAIL	74⅜	48¼	70	90
GREAT WESTERN FINANCIAL	27⅛	15⅞	26	40
LEHMAN BROTHERS	24⅝	13¾	21	35
NATIONSBANK	74¾	43½	72	100
QUAKER OATS	37½	29⅞	36	55
WACHOVIA	48¼	32	46	65
WASHINGTON NATIONAL INS.	25⅜	17¾	25	35
WESTERN DIGITAL	22⅛	13⅛	17	30

DATA: BLOOMBERG FINANCIAL MARKETS, BW SURVEY OF MONEY MANAGERS

Sidestepping Danger Before You Hear the Rattle

It takes more than a peek at a stock chart or p-e multiples to dodge a nasty bite

Rates are down, stocks are up. The Dow Jones industrial average climbs to ever-higher levels. Initial public offerings and high-tech and financial stocks are rampaging. But there's a flip side to the merriment. Sky-high price-earnings ratios, hype, and investor overenthusiasm can also be found in abundance.

Avoiding overpriced or shaky stocks can be the smartest way of keeping damage to a minimum in the event of a market setback. The Dow may well continue its upward march, but any weakness will bring as its first casualty the stocks that are rising on currents of hot air. The ranks of stocks to avoid range from high- to low-tech, with Internet-related stocks at the top of the list. Net stocks with high valuations and uncertain prospects include such highfliers as NETCOM On-line Communication Services and Netscape Communications. Biotech darling Organogenesis also falls in the category of "don't touch with a 10-foot pole," as does Infinity Broadcasting, the debt-laden radio chain that is home to disk jockey Howard Stern (table). For the most part, these are solid, reputable companies. But they have a way of defying gravity—and it won't go on forever.

BANK ON BANKS. Spotting shares to steer clear of is more than a question of looking at a stock chart or a high price-earnings multiple. For example, money-center banks and savings and loans were among the best-performing stock groups of the year, but that's no reason to avoid them—particularly if the Federal Reserve performs its election-year ritual of keeping rates low. "The bank and thrift groups are likely to remain strong and healthy for quite some time," observes Dale Jacobs, president of Financial Investors Inc., who manages hedge funds specializing in financial stocks.

Internet stocks are arguably the most dangerous stocks to buy right now. The leader, of course, is Netscape, the manufacturer of net-browser software. Its shares have nearly quintupled in price since its initial public offering at 28 in August. Online services and Internet providers such as NETCOM, UUNET, and America Online—which carries an online version of BUSINESS WEEK—have also been hot. But most have fundamental weaknesses that make them dangerous stock picks—and sometimes alluring short-sale prospects. The dial-in services "are about as close as you can come to a commodity," observes Michael Murphy, editor of *Overpriced Stock Service*, which recommends short-sale candidates. He believes Netscape is also a long-term loser. Net-browser software, still Netscape's chief claim to fame, is a dubious source of revenue, Murphy maintains. "They've gotten a 75% market share by giving their product away. I'd have hoped for 100%," he sniffs.

Until recently, the market has all but ignored the competitive time bomb that

es Internet-service providers. Word impending competition from Mi-›soft's network sent all Internet cks plunging recently. But the threat ›sn't end there. Numerous small ernet vendors, ranging from region-›utfits such as New York's Pipeline twork Inc. and IDT to even smaller ›rations, provide access to identical ernet services. For all intents and ›poses, they are NETCOM clones. They › pose serious competition for Amer- Online, Prodigy, and CompuServe, ere Web access has become an in-asingly important selling point. Mur-› predicts that Internet-only access l soon be priced as low as $3 to $5 a nth—which would be a body blow all Net-service providers, both large l small.

AGILE FLIGHT. Even though these g-term competitive dynamics have aped notice, the inflated valuations Net stocks have already made them nerable to bad news. All have seen ir share prices fall sharply in recent ›ks. But they are not necessarily ter-› short-sale candidates, either. Until rket sentiment toward the Internet damentally changes, these stocks will no doubt continue to dazzle with their acts of levitation. They're not available for borrowing in substantial amounts, making them difficult to borrow for short-selling and leaving shorts vulnerable to a short squeeze. "I tried and simply could not borrow [Netscape] stock and couldn't take a short position," laments New York money manager Bob Bandera, president of Westlake Capital.

Internet shorts may well wind up following in the footsteps of one non-Internet favorite of short-sellers, Presstek Inc., a New Hampshire company that's developing new technology for printing-press manufacturers. Presstek stock is up 250% for the year to date, and its p-e is a huge 742—wreaking havoc among shorts, who at times have had short positions on some 25% of the shares outstanding. Presstek, computer-equipment maker Cascade Communications, and Infinity Broadcasting are three recent short-selling picks of *Short on Value*, a newsletter that recommends stocks based chiefly on their valuation. Win Murray, the newsletter's associate editor, also likes McAfee & Associates, which designs widely-used antiviral software. Murray feels that while the company's growth is impressive—its sales have shown dramatic climbs in recent years—the figures simply don't justify high valuations.

ACTION

DON'T LEAP

Wall Street darlings often face competitive dangers the stock market fails to see

McAfee is a good example of how an otherwise worthwhile company can make the rank of stocks to avoid on the basis of overheated valuation. The same can be said for fast-rising but less pricey companies, including Starbucks Corp., the nationwide purveyor of coffee to the yuppie market, and AMC Entertainment, the movie-theater chain. Cascade Communications, which supplies telecommunications and networking equipment, has begun to show excessively rich market valuations, detractors such as Murray point out.

BUOYED BY FAITH. But again, shorting these stocks can be as hazardous as owning them. All too often, they're as treacherous for the shorts as they are for the longs. Traders who have shorted such short-seller favorites as Copytele, America Online, Presstek, and Organogenesis have gotten burned because the shares have continued to rise on continued investor faith—and the support, sometimes, of major brokerages. Evan Sturza, editor of *Sturza's Medical Investment Letter*, has long maintained that Organogenesis' skin-graft technology is destined to be a commercial failure, even if it gets Food & Drug Administration approval, because of competition from existing treatments. Sturza makes a persuasive case, but the market has ignored him, and the shares have zoomed in recent weeks simply because the company filed its FDA application.

Sturza dislikes North American Vaccine Inc. for the same reason: Its product under development, a pertussis vaccine, faces stiff competition in a low-margin business. "The market is merciless," Sturza maintains. And an even more rapacious market—the one on Wall Street—doesn't always appreciate that reality. Kindness? No, the operative word is "blindness."

By Gary Weiss in New York

BUYING THESE STOCKS MAY ENDANGER YOUR FINANCIAL HEALTH

	PRICE*	52-WEEK HIGH	P-E RATIO
: ENTERTAINMENT Feverish buying has driven shares of this ›ter operator up 126% for the year to date, but earnings are kely to hold up.	23¼	28¼	12
:RICA ONLINE The nation's premier online service is facing cious competition from many sources.	40⅛	46¼	NEG.
NITY BROADCASTING This high-flying radio broadcaster, home of "shock jock" Howard Stern, is $550 million in debt.	32⅛	37⅝	44
AFEE ASSOCIATES It's the Jonas Salk of antiviral software. But › its innovations been overcompensated by the stock market? ics say yes.	47¼	52⅞	91
COM A pioneer in Internet-only online services, NETCOM is ›aring recent IPO that, some analysts hold, is about to bump the ceiling.	52½	91½	NEG.
SCAPE The premier IPO of recent years makes Web-browser ware. But its valuation is so steep that it goes through spasms n the Net market sneezes.	136½	174	NEG.
TH AMERICAN VACCINE This company faces serious competition tough, low-margin business.	13½	14	NEG.
ANOGENESIS A favorite of short-sellers, this biotech company is ader in genetic engineering. But shorts deride its product.	20	22½	NEG.
SSTEK This developer of color-printer technology is the bane of t-sellers, who have been squeezed by ever-higher share prices.	89	97¾	742
RBUCKS A loaf of bread, a jug of coffee, and thou? Yuppies its brews, and so does the stock market. Maybe too much.	22⅜	23½	60

DATA: BUSINESS WEEK

It Looks Like The Year of the Eurobull

Lots of pros think Continental bourses are poised for a long rally

Money managers across Europe weren't sad to see 1995 end. It's not just that many of them become red-faced trying to explain how they missed the rally in U. S. stocks by betting on a correction some 1,200 points ago in the Dow Jones industrial average. They also bet heavily that the Continent would witness strong economic growth, rising earnings, and stronger bourses this year—only to see their hopes dashed. Although markets in the Netherlands and Switzerland chalked up solid gains amid a flight to quality, those in Italy and France declined, and Germany gained a mere 6%.

But to a growing number of pros on both sides of the Atlantic, 1996 looks to be the year Europe will finally deliver. The Continent's high interest rates are poised to come down—perhaps dramatically—as inflation remains tame and weakening growth forces the German Bundesbank to admit that its monetary policy has remained too tight for too long. Throw in a stronger dollar, expected tax cuts in Germany and Britain, and no tax increase in Spain, and all the ingredients for a bull market may be almost in place. Then, if France's government wins its gamble to defeat strikers nationwide and curb its welfare-state excesses, "we might have just that something that seems to be lacking to spark a sustained rally," says Christopher Kwiecinski, who is chief investment officer at Banque Indosuez.

Kwiecinski has plenty of company. Richard Davidson, a London-based strategist at Morgan Stanley & Co., thinks that European stock markets will see "their best year since 1993," with average total returns "in the region of 20%" as interest rates fall. How far will they go? Talal Shakerchi, manager of the European portfolio at Britain's Old Mutual Portfolio Managers Ltd., sees short-term rates around Europe falling 2 to 3 percentage points by mid-1997.

TEMPTING PROSPECTS. What's more, Shakerchi figures European companies "are just starting to see the benefits of downsizing and technological innovation" that fueled striking U. S. productivity gains—and the bull market—in '95. That makes small Continental companies, which have underperformed the broader market by as much as 40% over the past three years, particularly tempting. His favorites include Scandinavian lenders, particularly Norway's Fokus Bank, a possible takeover with a price-earnings ratio of only 4. He is also buy-

STOCKS TO EYE AS RATES FALL

COMPANY		PRICE IN DOLLARS	P-E RATIO
FOKUS NORWAY	Is this bank takeover bait?	$4.94	4.0
GUILBERT FRANCE	Makes big money in stationery	116.00	17.5
IBERDROLA SPAIN	Lower rates will help utility	8.66	11.0
NOKIA FINLAND*	Cell-phone maker is a cheap buy	51.50	11.8
WINTERTHUR SWITZERLAND	Overlooked insurance giant	698.29	9.1

*AMERICAN DEPOSITARY RECEIPT

DATA: BUSINESS WEEK SURVEY OF FUND MANAGERS

BRITAIN

Merger Fever Is Gripping London

Remember that apocryphal British weather report: Fog over the Channel, Continent cut off? In financial terms, at least, it finally came true. While the big Continental markets languished in 1995, London behaved as if Europe weren't even there: The blue-chip *Financial Times*-Stock Exchange (FTSE) index uncoupled itself from its neighbors and followed Wall Street's prices into the stratosphere, soaring 20%—or 18% in dollar terms—to record highs. And most pros think the British bull isn't tired yet.

No question about it, the London market's historic close correlation with American stocks played a big part in the runup. The Brit economy and its cor rate coffers have al continued to benefit from lower interest rates and higher gr ever since the count departure three yea ago from the restric monetary policies of European Union's e change-rate system. But the root o London price explosion is merger f Sparked by the $14 billion marriag drugmakers Glaxo PLC and Wellcom PLC in March, mergers and takeove

HEATHROW DELICAC
Britain's airports r spawn hefty profits

Germany's Adidas, ›se p-e of 10 is a bargain. He likes icals, too, including cash-rich Swed- steelmaker SSAB, another tempting ›over candidate. And why not? Com- ›ed with growth stocks, says Leh- ı Brothers Inc. European strategist Rooney, Continental cyclicals are selling "at levels not seen since the ısion of Kuwait."

ndeed, a clutch of Eurocyclicals are ting notice now. Rooney favors the nch auto manufacturer Peugeot and ›s maker Valeo, which will benefit if an end to France's social turmoil restores consumer confidence. But Morgan Stanley's Davidson prefers other blue chips, among them French telecom giant Alcatel, Holland's Philips, and Mannesmann, the German engineering group.

Restructuring, technology, and lower rates bode well even for Europe's higher fliers. Switzerland's equity market has been buoyed by an immense inflow of capital from German and other investors seeking a safe haven during the European Union's long-running currency turmoil. But Hans Rudolf Muller, a senior asset manager at Credit Suisse in Zurich, says the fun "may not be over yet." He likes pharmaceutical makers Roche Holding and Sandoz, as well as foodmaker Nestlé and insurer Swiss Reinsurance Co.

"TIP OF THE ICEBERG." Europe's potential hasn't made total bulls of all stock pros. With the Continental economy slowing, Michael Woodward, investment director for Europe at Edinburgh's Ivory & Sime, figures that "we've only seen the tip of the iceberg in revising downward" earnings forecasts for 1996. "That means markets certainly won't look cheap." Yet Woodward has no intention of backing out of his biggest position on the Continent: French stationery and office-supply wholesaler Guilbert, which has used its market-leader position to wring 15% growth out of a languishing economy.

ACTION

JET SET
The Continent cyclicals and small companie: may soon take off

Indeed, Europe's investment pros are hardly running for cover. Just give them cheaper money, more corporate restructuring, and some good news on the political front. These three wishes may have been unrealistic a year ago. Now, it looks as if they just might come true.

By Bill Javetski in Paris

me $125 billion have swept ›utical houses, banks, and utili- takeovers, together with a share buybacks, have tur- d the market with liquidity. ions and investors had a lot of ıat they wanted to get back market," says Michael Hart, of the Foreign & Colonial In- Trust. He figures the FTSE in- l climb an additional 10% in

UP. The utility mergers that the British electric-utility in- ıme as a particular surprise. e trend started, money man- ıbted whether the Tory gov- would put competitive con- ınd the need to improve the s efficiency. They were seriously mistaken. In recent months, eight regional utilities have been snapped up by other electricity producers, water companies, and a few American utilities that see Britain's market as a laboratory in which to get ready for pending U. S. deregulation.

While additional utility takeover candidates are beginning to grow scarce, plenty of other action remains. Catherine Guinefort, European strategist at Paribas Asset Management in Paris, thinks Lloyd's Bank PLC and HSBC Holdings PLC—the parent of Hongkong & Shanghai, Midland, and Marine Midland banks—will jump, as interest rates continue to fall.

But Morgan Stanley & Co. analyst Matthew Stainer thinks that British Airports Authority PLC, which operates the country's big gateways, is poised for a growth spurt. He thinks BAA will see a 12% profit growth over the next three years, and he figures the stock could rise by 20%. Another undervalued pick comes from Wolfhardt Graetz, European strategist at Zurich's Bank Vontobel. He likes cigarette maker BAT Industries PLC. Its price-earnings ratio of 11 is a bargain compared with Philip Morris Cos.' 14.

Despite the euphoria, the reality of national elections to be held by 1997 and a likely Labor Party victory will probably set in around midyear and give the bulls reason for caution. But until that reality check comes, the London market appears to have plenty of energy to burn.

By Bill Javetski

A Corpse Called Nikkei Shows Signs of Life

A stabler yen and a waning recession rouse Tokyo stocks

Is the five-year hex hanging over the Tokyo Stock Exchange finally lifting? There's no denying that something is afoot, what with the Nikkei Stock Average up 33% from its 1995 low of 14,485. But after a year of runaway yen appreciation, price deflation, and bank failures, it's hard to be optimistic.

Still, even Tokyo gloom merchants see some signs of a modest recovery. Longtime skeptic Edwin C. Merner, who manages about $1 billion for Schroder Investment Management (Japan) Ltd., thinks the Nikkei could jump 15% in the next 12 months and gain a further 20% in 1997. "Right now, we are looking at a cloudy sky with patches of blue," he reckons.

CHIPMAKING CHIPS IN. The sunny spots include greater currency stability and an end to Japan's four-year run of economic stagnation. The dollar-buying rescue missions that the Bank of Japan and U.S. Federal Reserve have undertaken since this summer have managed to push the superyen from 80 to the dollar to a remarkably stable rate of about 100. Just-released corporate earnings vaulted 28% in the half-year period ended in September. And most economists think that Japan will achieve gross domestic product growth of 1.6% or so in 1996.

Perhaps in anticipation, foreign investors have plowed more than $30 billion into the Tokyo bourse during the past six months. Fund managers suggest looking for companies that have a technological edge, market-share clout, scads of cash, or real turnaround potential. In high tech, the global boom in semiconductors and personal computers is benefiting several Japanese companies. Schroder's Merner likes Nikon Corp. and Canon Inc. Best known for their cameras, these companies are also major purveyors of semiconductor components. Indeed, the chipmaking explosion worldwide should drive Canon's chip-equipment sales up 60% this ya Ditto for Tokyo Electron Ltd., wh more than 50% of its $2.5 billion in nual sales now comes from semiconc tor equipment.

CD-ROM ADD-ONS. Foreign investr have flocked to flagship electronics m ers such as Toshiba Corp. and Corp., which James Capel Inc. ana Jason James points out are ringing 15% to 20% annual gains in semic ductor sales. Another favorite is sumi Electric Co., a maker of ROM add-ons that has alre shifted 60% of its produc to cheaper sites abro "Every personal compu now needs a CD-ROM," says C. Burden, director of HSBC set Management Japan, who placed about 20% of the $2 billion that he manages in Jap ese electronics and high-t companies.

There are even some go within Japan's battered ba ing sector, thanks to histo cally low interest rates t have allowed lenders to b row their money at close 0% and then plow it b into Japanese governm bonds yielding about 2.6%– else into foreign debt w even richer spreads. Sumit Bank Ltd., after writing off billion worth of bad loans year, has emerged as the most profitable city bank. Analysts also like regional Shizuoka Bank Ltd., which Moody's Investors Service ranks as the most financially sound of all Japan's banks.

The Tokyo market remains risky. Commercial land prices are still tumbling, bankruptcies are up, and the banking system makeover is just beginning. Also, warns Barclays de Zoete Wedd Securities analyst David Pike, "should yen strengthen again, we would tainly see this little [stock] bub burst." But after five years of unrel ing gloom, the recent upturn is a v come relief—and a reason to bet on future.

By Brian Bremner in To

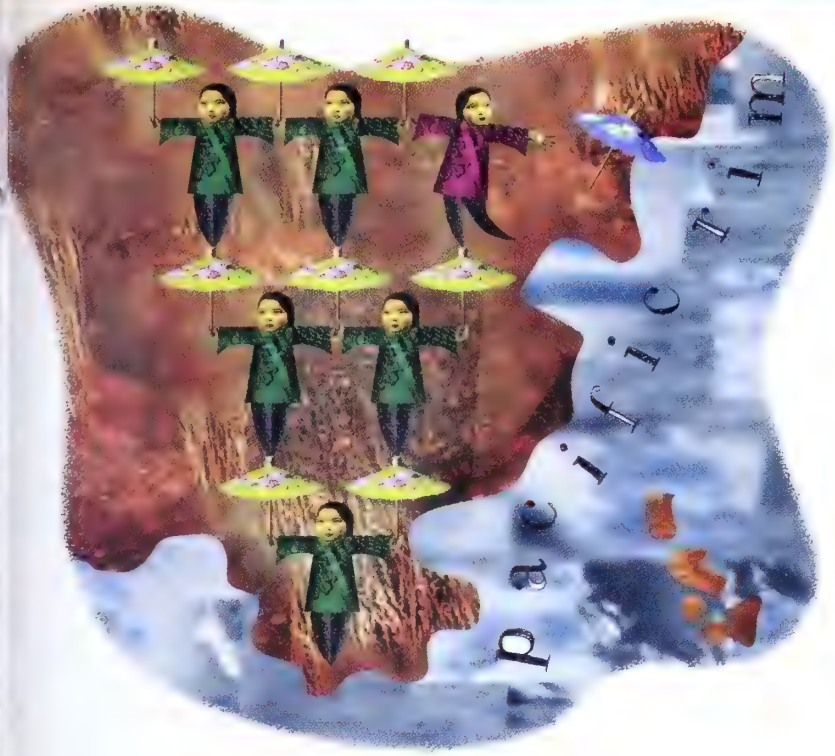
ACTIO

TIPTOE
The risk are real but looka high-tec stars an some of the ban

MARKET PICKS IN UNCERTAIN TIMES

COMPANY		PRICE ON DEC. 6	P-E RATIO
CANON	Booming bubble-jet printer sales	$18.81	39
TOSHIBA	High on global chip sales	8.00	48
MITSUMI ELECTRIC	Riding the CD-ROM wave	25.64	39
SHIZUOKA BANK	A squeaky-clean balance sheet	12.90	49

DATA: BUSINESS WEEK, BLOOMBERG FINANCIAL MARKETS



The Fog May Lift by Midyear

'or most Asian markets to heat up, global rates must fall

Watch, wait—and pray for money from abroad. That sums up 1995 for most investors in Asian equities. th the exception of Hong Kong, up %, most other Asian bourses barely dged—and Taiwan lost 33%. vestors in Asia have gritted their eth in frustration as Wall Street's ralhas left the world's fastest-growing gion behind.

If 1996 is to turn out better, pros say, bal interest rates will have to fall ne more. "The big question is when uidity is going to pick up again," says vid Shairp, regional research direc- for BZW Asia Ltd. A large enough e decline, Asian pros feel, would cause cks to start picking up in the second lf of 1996. In fact, Salomon Brothers . is already telling customers to build exposure to Hong Kong. For one ng, the colony has already had its colse, with stock prices falling 45% in 94. Even after the gains of '95, the rket is still selling for less than 12 nes next year's estimated earnings, its vest valuation in five years.

Others insist Solly is jumping the gun. Hong Kong real estate values are flat in a city that lives and breathes property. "I can't really see where the excitement is going to come from," says Bruce Seton, chief executive officer of Peregrine Asset Management (Hong Kong) Ltd. Still, even Seton is looking for a pickup late in the year—and he thinks New World Development Co., a well-managed property and infrastructure developer, is a safe way to go. And don't forget 1997, when Britain is due to hand over Hong Kong to Beijing. Mavens suggest stocks could receive a boost if relations with China remain stable prior to the big shift.

Another concern for Asian investors is inflation. Most worries center on Malaysia, which is wrapping up its eighth consecutive year of 8%-plus economic growth. Analysts fear the country's currency will be hammered by speculators, forcing a hike in interest rates that could hurt many highly leveraged companies.

The outlook appears better for Indonesia. Despite a flat market in '95, Lisa Stewart, a director at Hong Kong's Bowen Capital Management, still likes Indonesia's solid earnings growth and 12.6 average price-earnings ratio. Her top pick: HM Sampoerna, a maker of clove-flavored cigarettes favored by local field hands.

SWIFT SELL-OFF? In northeast Asia, the major worry is politics. Taiwan has been rocked by Beijing's pressure campaign to stem thoughts of independence. And Korea's market is suffering from a political-corruption scandal. But with earnings growth remaining strong in Seoul, many fund managers still bet that the market will live up to the hopes they had for it earlier this year, when it was picked as one of the most attractive in the region.

Some strategists think it will take a while longer for such hopes to be realized. They think it more likely that Asian markets will see a precipitous sell-off during the next 6 to 12 months if U.S. investors cash in their Asian shares and put the money back to work at home. "I'm perceiving a climactic finale," says Peter D. Everington, managing director of Hong Kong's Regent Fund Management Ltd.

But once that passes, Everington says, bargain hunters will appear in earnest. "You will get a great buying opportunity," he says. Indeed, across Asia, market fans are counting on the region's attractions—fast growth, stellar productivity, and high savings—to win global investors back. But until the punters return, Asian markets may face more rough going.

By Mark L. Clifford in Hong Kong

GROWTH PLAYS IN THE PACIFIC

COMPANY		PRICE ON DEC. 6	P-E RATIO
GENTING	Malaysian gambling	$8.63	26
HSBC HOLDINGS	Hong Kong banking giant	15.00	10
MATAHARI PUTRA	Red-hot Indonesian retailer	1.90	27
SEMEN GRESIK	Indonesian cement maker	2.72	18
VARITRONIX	Hong Kong LCD manufacturer	1.86	15

DATA: BUSINESS WEEK SURVEY OF FUND MANAGERS

Mexico Has Nowhere to Go but Up. Right?

A year after the peso debacle, the market may be ripe

Interest rates are over 50%. The economy shrank by more than 7% in 1995. More than 1 million people have lost their jobs. Political scandals keep mounting. So why do many experts say it's time to return to the Mexican stock market, where the Bolsa index was down 26% in dollar terms in 1995? Because investors who wait for the economy to lumber back to growth may be too late.

One year after the peso devaluation drove investors from Latin American markets, many analysts are suggesting selective buying in Mexico. Aside from cheap stock prices for foreigners, observers are encouraged by falling interest rates, a halt in job losses, and higher cement consumption—all indicators that the Mexican economy may have bottomed out. Jorge Mariscal, head of Latin equity research at Goldman, Sachs & Co. in New York, estimates that the Bolsa Mexicana de Valores could rise 20% in dollar terms over the next 12 months. "If you wait until there is concrete evidence of economic growth, then it's time to sell," he argues.

Nobody expects such signs to be popping up all over in 1996. Most economic forecasters are looking for expansion of no more than 2%. So the pros advise caution. For many analysts, that means sticking with exporters, since domestic consumption is likely to remain depressed. Mexico shipped 33% more abroad during the first nine months of 1995 compared with the same period in 1994, in dollar terms. The country's steel, mining, and chemical companies benefit from high international prices while their costs are in undervalued pesos. Many have expanded capacity. Shares in copper miner Grupo México, for example, are up 25% in dollars for the year, and the company found heavy demand for a recent $525 million debt sale.

NEW CONTRACTS. But picking the right exporter is tricky. If the peso strengthens against the dollar, as some expect, margins will shrink. Among conglomerates, many recommend Alfa, the steel and petrochemical giant, and Desc, a holding company with interests in chemicals and auto parts. Analysts' favorite steelmaker is Altos Hornos de México, given its long-term growth potential.

The intrepid may want to bet on companies that supply to the domestic market. With its stock depressed by the market fall, retailer Cifra is Me co's bargain blue chip. It has no debt commanding market share, and world-class partner in Wal-Mart Stor Inc. But investors must be willing wait a couple of years to see return Paper products company Kimber Clark de México has raised prices, i creased market share by replaci more expensive imports, and pared pr duction costs.

Even in two of Mexico's hardest-h sectors, construction and banking, the are worthy picks. Engineering and co struction company Bufete Industrial h won new contracts abroad this year a picked up work from expanding Mexic exporters. The country's largest ban Banacci, is likely to emerge stronger after the crisis.

ACTION

CAUTION Mexico's domestic market i still flat, exporter look like good bet

Of course, the Mexican market remains highly risky. While the peso has stabilized at about 7.7 for now, more currency jitters would delay recovery. No one can predict if Mexicans will tolerate a continued erosion of living standards in 1996. The corruption scandal surrounding the brother of former President Carlos Salinas de Gorta continues to simmer. But investors wi ing to hang on may be rewarded. Sa Alexander Anderson, research direct at the Abaco brokerage house in Me ico City: "You only need a lot of p tience and a pretty strong stomach Especially the latter.

By Elisabeth Malkin in Mexico Ci

MEXICAN PICKS FOR THE STRONG OF STOMACH

COMPANY		PRICE ON DEC.6	P-E RATIO**
CIFRA	Top retailer—and debt-free*	$1	NA
AHMSA	Strong steel exporter	6	6
GRUPO MEXICO	Copper miner investing in refinery	4	6
TELMEX	Down but not out*	32	16
BUFETE INDUSTRIAL	Fast-growing global builder*	14	NA

* American depositary receipts ** Based on estimated 1996 earnings per share

DATA: BUSINESS WEEK, BLOOMBERG FINANCIAL MARKETS

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Four Gurus and a Lofty Market

After 1995's big runup, BUSINESS WEEK's new stock savants are stressing fundamentals

What stocks would you choose if you had $100,000 to invest this New Year? That's the question BUSINESS WEEK asks four top investors each December. These brave souls are required to produce a list of 10 stocks for the coming 12 months.

This year's stock-pickers have an especially difficult act to follow. The market of '95 was just about perfect for value investor Douglas Johnson, now a portfolio manager with Greenwich Street Advisors, a division of Smith Barney Inc. Johnson's bottoms-up stock-picking style reaped him a 65% overall gain through Dec. 1. His portfolio benefited most from a 255% jump in the stock of Data Broadcasting Corp., a manufacturer of portable stock-quote machines. Data Broadcasting witnessed Internet-crazy gains after the company was named a data provider for Microsoft Corp.'s World Wide Web site.

In second place, with a 54% payoff, was Justin S. Mazzon, senior portfolio manager for American Blue Chip Investment Management. He overweighted his portfolio in high-yield stocks using a modified beat-the-Dow strategy designed to protect his portfolio from a market downturn. Mazzon's home run was Sears, Roebuck & Co. Our international stock specialist, John Horseman, fell from first at midyear to third, in part because of a disastrous performance at China's Luoyang Glass Co., down 40%. Strong U.S. consumer stocks helped him back, though, and Horseman's final return was 24%. Like Mazzon and Horseman, stock-picker John S. Gardner was bearish last January. Gardner, of Van Liew Capital, loaded up on cash-rich stocks as a hedge, and his portfolio finished fourth, still up 20%.

In common with last year's lineup, 1996's quartet is singing a song of caution about the overall market. Our four gurus are focused on company fundamentals, and they're betting that a good story is the best wager in uncertain times.

IN SEARCH OF UNDERVALUED ASSETS

Desi Heathwood made headlines last April when he led a mass defection from old-line money manager Boston Co. The company's parent, Mellon Bank Corp., felt his loss, as institutional investment dollars began departing as well. Heathwood set up his similarly named Boston Partners within the month and has amassed $5 billion in assets under management since April. Heathwood and his cohorts are strict value managers who focus on buying at low price.

DESMOND J. HEATHWOOD
Chief Executive Officer, Boston Partners Asset Management Ltd.

STOCK	PRICE
HORIZON/CMS HEALTHCARE	$24¼
IBM	96¼
LEHMAN BROTHERS	21⅞
THE LIMITED	17⅜
LOEWS	78
NOVELL	14⅛
REPUBLIC NY	64⅜
SPRINT	40¼
STOLT-NIELSEN (STLTF)	30
VOLVO (VOLVY)	20⅝

With the market's current highs, it not easy to find undervalued compa nies. So Heathwood is buying compa nies whose parts, he believes, ar worth more than the whole. He look for managements that are actively try ing to unlock that value, such as mem bers of the Tisch family at Loew Corp. They recently sold their stak in CBS Inc. and part of their stake i Diamond Offshore Inc. Heathwood als likes The Limite Inc., a retailer that i spinning off division to increase sharehold ers' returns. Tele communications gian Sprint Corp. make the list in part be cause of the compa ny's decision to spi off its cellular bus ness. Cash-rich car maker Volvo, whic has already sold man ancillary businesses trades at half its tru value, according t Heathwood.

Heathwood favors few reasonably price acquisition-minded companies a well. IBM is throwing off enoug cash to cover future acquisition and still buy in shares. Heathwoo calculates that IBM will generate $1 a share in free cash flow in 1996, a most 15% of the $96 stock price Republic New York Corp., whic is in the process of buying Cross land Federal Savings Bank fo $530 million, boasts an excellen management team and seve years of strong returns Heathwood thinks it's bargain at nine time next year's earnings.

Out-of-favor Lehma Brothers Inc., the only bro kerage firm trading at a dis count to book value, is an other Heathwood pick. H

es that Lehman does not get ıgh credit for its strong fixed-ne busi-. Stolt-sen, a Brit-ɔased shipper s trading at only n times next year's earnings, is a :hwood favorite because cargo ship-rates are firming. Two out-of-favor th names round out his picks: Nurs-ıome operator and rehabilitation ider Horizon/CMS Healthcare, and orker Novell Inc. Both companies ld resume good growth this year, :hwood believes.

All data in tables is as of Dec. 11.)

)M SPELL-CHECKERS CITRONELLA CANDLES

s manager of the hugely successful billion PBHG Growth fund, Gary Pil-ı has racked up a nifty annualized rn of 22% since 1986. An investor plunked down $10,000 nine years would have $80,000 today, an ac-ɔlishment that earned PBHG Growth ıingstar's highest rating—five stars. ·im is a strict growth manager who ses his attention on small-cap com-es. "As growth managers go, we're ng the most aggressive because we ys look for companies in the early iddle stages of maturity," says Pil-ı. He pretty much ignores the mar-He gamely offered to make an all market projection for 1996 when NESS WEEK asked, but instead, we ıim concentrate on what he does : picking stocks.

number of technology issues pro-the kind of growth (30% to 40% -term) and potential for positive ıings surprises Pilgrim looks for. first pick, Inso, supplies spelling-grammar-checking software pro-ns to everyone from Microsoft to ıs Development. In addition to this ly lucrative busi-, the company is ying its linguistic ertise to products do everything ı searching giant bases by word to ing executives use lish as a second uage in composing espondence.

nother pick, Cog-Corp., is a leader ıachine vision orig-ly used for in-ting semicon-ors but now rseeing a variety asks from razor-blade production to bottle-cap sealing. He also likes Kemet, a manufacturer of electronic components for circuit boards, which grew 130% last quarter, beating Wall Street estimates. McAfee Associates, a developer of antivirus software and another fast grower, with earnings expected to increase 40% in the coming year, makes his list as well.

Another small-cap sector Pilgrim has explored is health care, where Physician Sales & Service, a distributor of supplies to doctors' offices, is a favorite thanks to aggressive acquisitions and expanding margins. He also likes Quintiles Transnational Corp., a specialist in getting clinical products approved for larger manufacturers in regions around the world. This is part of a broader outsourcing trend Pilgrim is investing in.

Gartner Group Inc., which researches and analyzes computers and software, is a particular favorite, Pilgrim says, because it dominates its market and promises a 50% earnings increase this year. Pilgrim also likes Accustaff Inc., a temporary staffing company that is buying up the competition, and U.S. Filter Corp., which dominates the water-purification market. Although long-term debt is up at U.S. Filter, Pilgrim sees water becoming a more scarce commodity and the company's acquisition strategy paying off. For his finale, Pilgrim has chosen something completely different: Blyth Industries Inc., a manufacturer of aromatic, religious, and citronella candles, which he jokingly refers to as the "cocooning play."

GARY L. PILGRIM

President and Chief Investment Officer, Pilgrim Baxter & Associates

STOCK	PRICE
ACCUSTAFF	$33
BLYTH INDUSTRIES	54½
COGNEX	56¼
GARTNER GROUP	43⅛
INSO	44½
KEMET	29⅝
McAFEE ASSOCIATES	47¼
PHYSICIAN SALES & SERVICE	21¾
QUINTILES TRANSNATIONAL	36
U.S. FILTER	24¼

WHAT DO DISNEY AND HARLEY HAVE IN COMMON?

In addition to overseeing a $16.5 billion fund group that bears his name, Dick Strong keeps attuned to the markets by managing the Strong Discovery

RICHARD S. STRONG

Chairman, Strong Funds

STOCK	PRICE
CANANDAIGUA WINE	$30¼
DANKA BUSINESS SYSTEMS	33
DENTSPLY INTERNATIONAL	37¼
WALT DISNEY	61¾
EXIDE	47⅞
HARRAH'S ENTERTAINMENT	25¼
HARLEY-DAVIDSON	26⅝
LANCASTER COLONY	35⅛
MARSHALL INDUSTRIES	34⅞
SENSORMATIC ELECTRONICS	19½

Fund. His discoveries for 1996 include a number of manufacturers of disposable products, such as razor blades, that need to be regularly replaced. While he expects sporadic market corrections, Strong is optimistic that the extremely positive environment for business that followed the collapse of communism in the 1980s will continue. He believes inflation and interest rates will remain low in the coming year. "As long as the government stays out of the way, for a good management team, it's a dream," says Strong.

A typical Strong pick is Dentsply International Inc., one of the largest dental suppliers in the country. It is valued at an attractive 15 times fiscal 1996 estimated earnings and will, he says, enjoy earnings growth in the midteens thanks to acquisitions and demand. "People's teeth break all the time," says Strong, who foresees no dip in demand for this company's services. At Danka Business Systems, a servicer of photocopiers, Strong is looking for a hearty 30% earnings growth based on the company's ability to buy up readily available mom-and-pop operations and streamline its operations. Danka, based in Britain, trades in American Depositary Receipts in the U.S.

Consumer demand for Exide Corp. batteries will help this company, which Strong says is the most efficient manufacturer of batteries in the world. Strong thinks Canandaigua Wine Co. is cheap at 11 times 1996 expected earnings. The stock was recently beaten down after a disappointing quarter, an overreaction according to Strong. For the fearful, he has Sensormatic Electronics Corp., a manufacturer of theft-prevention devices. Growing at 25% a year, Sensormatic, he says, has a new chief executive and a great chance to cut costs over the next few years. For the fearless, there's Harley-Davidson Inc., whose yearlong waiting list for motorcycles and growing international market impress Strong.

Two entertainment stocks have caught his eye. Strong thinks Walt Disney Co. will benefit from new broadcasting and publishing outlets. Harrah's Entertainment, the former Promus Cos., will, he expects, disprove overblown concerns about its New Orleans operations. Lancaster Colony Corp., a manufacturer of glassware, candles, and specialty foods, and Marshall Industries, a rapidly growing distributor of electronic components, enjoy low price-earnings ratios, in part, Strong feels, because of lack of Wall Street coverage of the stocks.

SHINING A LIGHT ON ASIA'S STARS

As director of Far Eastern equities at London-based Guinness Flight Global Asset Management, Richard Farrell is waiting for the U.S. market to get tired. That's when money will begin to return to Japan, he argues, and it could happen soon. Rock-bottom interest rates, a decline in the yen, and gradual improvement in the Japanese economy have him bullish on Japanese stocks. A contrarian streak may explain his desire to get in before the rush. "You should buy from the fearful and sell to the greedy," says Farrell.

Japanese telephone giant NTT is especially likely to rise this year, according to Farrell. He thinks this could be the year the company is broken up into component parts, à la AT&T, unlocking now-hidden value. Farrell likes Asahi Bank Ltd.'s reasonable level of bad debt and is betting that margins for Japanese banks, traditionally wafer-thin, will improve. His optimism about the semiconductor cycle continuing its upswing led him to Tokyo Electron Ltd., which should see revenues for the current fiscal year up 50% and an additional 25% gain next year, he says. Oi Electric is a smaller company that Farrell has selected as a pure play on Japanese interest in the Internet, which he says has "almost become an obsession."

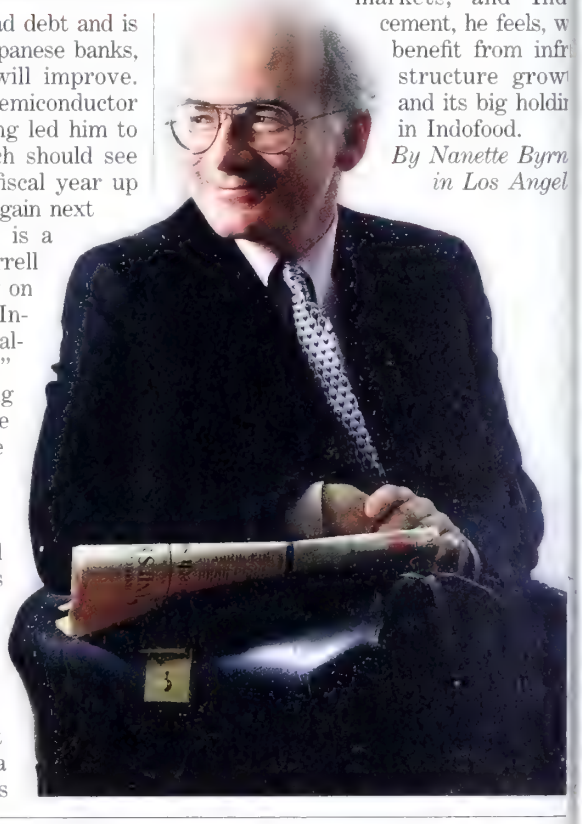
He also likes Hong Kong stocks, which he finds the safest way to participate in mainland China's growth. "On the whole, the mainland China exchanges have very small trading volumes," says Farrell. "In Hong Kong, the accounting and legal infrastructure is much better established." HSBC Holdings scores for strong management. First Pacific Co. he thinks is a strong telecommunications play as well as a developer of Fo Bonifacio, a planned business hub the Philippines. Farrell's third Hor Kong choice, investment bank Per grine, will benefit in the near ter from an upturn in the market, he say and in the long run from the develo ment of a significant Asian governme debt market needed to fund its eno mous infrastructure growth. Also ava able as ADRs are HSBC Holdings, Per grine, and NTT, which trades at 42.

RICHARD FARRELL
Director, Far Eastern Equity Investment, Guinness Flight Global Asset Management Ltd.

STOCK	PRICE
ASAHI BANK (TOKYO)	$11¾
FIRST PACIFIC (HONG KONG)	1⅛
INDOCEMENT (JAKARTA)	3⅜
HSBC HOLDINGS (HONG KONG)	14⅞
KOREA ELECTRIC POWER (ADR)	24⅞
NIPPON TELEGRAPH & TELEPHONE (TOKYO)	8,393
OI ELECTRIC (TOKYO)	32⅛
PEREGRINE INVESTMENTS (HONG KONG)	1¼
SAMSUNG ELECTRONICS (GDR)	65
TOKYO ELECTRON (TOKYO)	41⅜

To the north, Fa rell likes Korea's Sar sung Group, a resu of his generally bu ish outlook for PCs. H is recommending Sar sung's Global Depo tary Receipts, whi he calls "unbelievab cheap" on a cash-flo basis. He has also s lected Korea Electr Power, which is ben fiting from a 12 jump in kilowatt sal in the first six mont of this year, a demar trend that Farrell e pects to continue. H final pick is Indon sia's Indocement. I donesia is one his favorite emergi markets, and Ind cement, he feels, w benefit from infr structure grow and its big holdi in Indofood.

By Nanette Byrn in Los Angel



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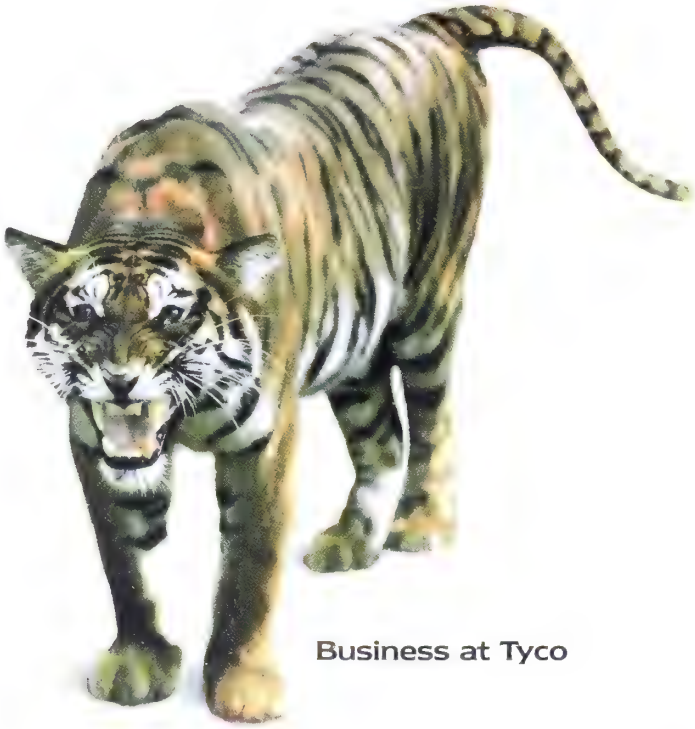

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GENE G. MARCIAL

French Play n the Internet

rance's answer to Intel, SGS-Thomson Microelectronics (STM), a Big Board-listed stock, is start- to attract attention in America. It nt public on Dec. 8, 1994, at 22 a are—and streaked to 55¾ by mid- igust. The stock has since given up ich of that gain, falling to 33 in the unding that technology issues took cently. But Thomson's fans aren't ed: "It gives investors who failed to tch the stock early a second shot at

CHEAP ENTREE TO CHIPS

EARNINGS PER SHARE	
1997 Est	$5.00
1996 Est	$4.25
1995 Est	$3.88
1994	$3.04
1993	$1.92

DATA: BLOOMBERG FINANCIAL MARKETS, LEHMAN BROTHERS

ying cheap," says one New York in- stment manager who has been doing st that. The company was formed in 87 through the merger of France's omson Semiconductors and Italy's s Microelletronica.

This pro thinks Thomson is the stock bet on in semiconductors. He's con- iced it will catch fire soon—because of MPEG I and MPEG II chips, which compress video data for smooth and arp replay of digital video and audio ta. Although other companies have mpression technology, this money nager is one of several who see these ips—an access ramp to the Informa- n Superhighway—as a play on in- stors' infatuation with the Internet.

"The product is at the crux of tech- logy that can access videos out of the ternet," explains this pro. What's sure lift future demand for MPEG chips is icrosoft's licensing of Sun Microsys- ms' new Internet language—Java ript. With a new language in place, ajor new programming will develop, d consumers soon will be able to wnload complex audio and video pro- ams from the Internet. They may use multimedia PCs or multimedia terminals. In either case, they'll need MPEG chips.

Thomson has a 50% market share in MPEG I chips and nearly 100% in the more advanced MPEG II. In multimedia PCs, the MPEG has been "very well received, especially for Windows and DOS products," says a company spokesman. About $100 million worth of high-margin MPEGs, or 4 million units, have been sold by Thomson this year. He says demand for MPEGs will hit 60 million units in 1997 and 220 million by 1999. MPEGs sell at $35 apiece. MPEGs are also used in the new generation of video CD players. One big customer is Thomson Multimedia (no relation), which has chosen the MPEGs for its set-top decoder used in Hughes DirectTV. Other big customers: Sony, General Instrument, and Scientific-Atlanta.

A rival maker of MPEGs is C-Cube Microsystems, which trades at 100 a share—with a lofty 97 p-e, vs. Thomson's 11. Analyst Mike Gumport of Lehman Brothers notes that Thomson far outstrips its peers in growth and profitability, yet the stock is undervalued. "Based on comparable multiples, our one-year $60 target for Thomson now seems too low," says Gumport.

Double Boon from Helix

Never mind what Helix Technology (HELX) makes. When you see its sales and profit graphs, you'll want the stock. Those two lines go nearly straight up—from 1991 on. Aside from being a growth stock, it pays a $1-a-share annual dividend. How many other tech stocks provide both growth and income? Not many.

What's Helix all about? It's the world leader in cryogenic and vacuum-technology products: The cryogenics aid in cooling off infrared detectors, superconductor devices, and advanced electronic circuits. Helix' products generated a return on equity of 50% in 1995, up sharply from last year's 36%.

Producers of semiconductors, flat-panel displays, magnetic heads, disk drives, CD-ROMs, and optics all use systems that need Helix' vacuum technology. Helix supplies vacuum and cryogenic pumps to many such outfits. Helix customers include practically every semiconductor and integrated-circuit producer in the U. S.

"All these products are finding a larger market every day," says Theodore Rudd O'Neill of H. C. Wainwright, a Boston investment firm, who thinks Helix will earn $2.10 a share in 1995, $2.66 in 1996, and $3 in 1997—up from $1.82 last year. He figures the stock, now at 31, is worth 50. Considering the growing importance of Helix products, he says, "I wouldn't be surprised if one of the big superconductor companies made a move to acquire it."

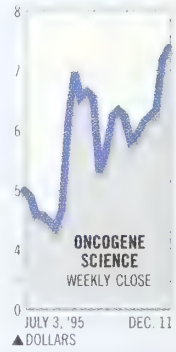
Oncogene's Full Dance Card

If biotech stocks are on their way back, as analysts assert, there's quite a list of winners to choose from. Many investors are flocking to Oncogene Science (ONCS), whose links with big drug houses are paying off.

"This collaborative strategy has left Oncogene undiscovered yet financially and technologically strong," argues Edward Hurwitz of Robertson Stephens in San Francisco. So far, Oncogene has an impressive list of partners: Pfizer, Ciba-Geigy, Hoechst, Beckton Dickinson, and American Home Products. The first four hold stakes in Oncogene —of about 5% each.

Oncogene designs in-vitro and live-cell tests to discover leads on drugs for cancer, infectious diseases, diabetes, and cardiovascular and neurological disorders. "We're working on 29 targets, and we've identified leads in 22 of them," says CEO Gary Frashier.

POWERFUL PARTNERS



DATA: BLOOMBERG FINANCIAL MARKETS

One of them is being developed with Pfizer for an anticancer compound that's expected to begin clinical tests in mid-1996. Another drug, being developed with AHP's Wyeth-Ayerst, is slated for more tests in 1996.

That's not all: One money manager accumulating shares says Oncogene is talking to another U. S. pharmaceutical house to sign a pact for one of its leads.

Currently trading at 7¼, the shares are worth 15, based on what Oncogene has in its "treasure chest of new-drug leads," says Hurwitz. The company admits it will stay in the red through '97 but expects to make money by '98.

Will All That Sizzle Turn to Smoke?

Not very likely. There seems to be plenty of beef for next year

Mutual-fund investors have plenty of reasons to be merry as 1995 draws to a close. The average equity fund turned in a total return of 24.2% for the year, compared with –5.3% a year ago. And bond funds were no slouches, with taxable funds gaining 14% and tax-free funds rising more than 15%. A Scrooge could note that actively managed mutual funds didn't beat the 37.6% return of the Standard & Poor's 500-stock index. But the 1,667 U. S. diversified equity funds, which by their nature tend to track the indexes, are up 31%. In fact, almost half of the mutual funds in Morningstar Inc.'s 6,026-fund universe had gained 30% or more as of Dec. 8.

The mutual-fund investors with the most to celebrate are those in technology funds, the year's top performers. The average total return of tech funds is 44.6%, including reinvestment of dividends and capital gains. Although tech funds have given up some gains recently, their returns still beat the 41.5% gain of health-care funds and the 40.3% return of funds focusing on financial stocks such as banks and insurance companies.

Small-cap funds, up almost 30%, were also big winners in the 1995 fund derby. But many of them were outperformed by the larger aggressive growth funds. Fifteen of the 25 largest equity mutual funds weighed in with returns topping 30%. The best return was in the $14.8 billion Twentieth Century Ultra Investors, an aggressive growth fund that moved up 40.8%, thanks to some smart big bets on technology. The $17 billion Washington Mutual Investors fund came in second with a 39.3% return. And the $53.8 billion Fidelity Magellan fund grabbed third place with a 38.2% gain.

"PLACE TO BE." Small-cap mutual funds may give their larger-cap cousins a run for their money in 1996. Investment managers expect the NASDAQ Combined Composite Index, home to many small-cap stocks, to continue outperforming the large-cap indexes. Some small-cap stocks did beat the megafunds in 1995. Garrett Van Wagoner, fund manager for the $563.5 million Govett Smaller Companies A Fund, steered it to a 65% return. That means that it stands to become the best-performing small-company fund for three straight years. If there is continued low inflation and low real growth with no recession in 1996, "small-cap growth is the place to be," says Van Wagoner.

Van Wagoner set the stage for his fund's stellar return by selling his 17% holding of chip stocks at midyear. He put half the money in Internet stocks and the rest into data communications and software issues. His Internet strategy includes selling half of a holdin when it doubles in price. Van Wagone remains bullish on Internet stock "They seem incredibly valued, but th growth potential of the area is as big a I've seen in any area," he says. "Ove the years, I've found that the best con panies and the best groups are alway expensive."

In 1996, the 40-year-old Van Wag oner is striking out on his own an starting a family of no-load funds. Th Van Wagoner Funds will premier wit micro-cap, emerging growth, and mic cap fund offerings in early 1996. Th emerging growth fund will be manage similarly to the Govett Smaller Compa nies Fund.

The grand prize among the top-pe forming tech group goes to the $1 bi lion Fidelity Select Electronics Fun which is managed by Marc Kaufma The strength of semiconductor stock was a big contributor to the fund's tot return of 74.4%. Chip stocks have take a beating lately, however, with man 30% to 50% off previous highs. Th fund's net asset value, in fact, is dow 15% from its September high.

Kaufman has repositioned the fund t

HOW THE BIG FUNDS FARED

FUND	ASSETS BILLIONS	TOTAL RETURN*
FIDELITY MAGELLAN	$53.8	38.2%
INVESTMENT COMPANY OF AMERICA	24.1	30.0
WASHINGTON MUTUAL INVESTORS	17.0	39.3
VANGUARD INDEX 500	16.6	37.6
FIDELITY PURITAN	15.2	20.0
TWENTIETH CENTURY ULTRA INVESTORS	14.8	40.8
FIDELITY CONTRAFUND	14.5	36.3
FIDELITY GROWTH & INCOME	14.0	33.4
VANGUARD/WINDSOR	13.7	31.2
INCOME FUND OF AMERICA	13.0	27.6

*Appreciation plus reinvested dividends and capital gains before taxes, Dec. 30, 1994 - Dec. 8, 1995

DATA: MORNINGSTAR INC.

EQUITY FUNDS: TECH AND HEALTH CARE LEAD THE PACK

	TOTAL RETURN*		TOTAL RETURN*
TECHNOLOGY	44.6%	COMMUNICATION	19.8%
HEALTH CARE	41.5	NATURAL RESOURCES	14.2
FINANCIAL	40.3	WORLD	14.1
GROWTH & INCOME	31.4	EUROPE	13.2
MAXIMUM GROWTH	31.4	REAL ESTATE	10.4
GROWTH	31.2	FOREIGN	4.7
SMALL COMPANY	29.7	PRECIOUS METALS	4.3
EQUITY-INCOME	28.5	PACIFIC	1.7
SPECIALTY - MISC.	27.5	DIVERSIFIED EMERGING MKT	–5.7
BALANCED	24.1	U.S. DIVERSIFIED EQUITY	30.8
ASSET ALLOCATION	23.2	ALL EQUITY FUNDS	24.2
UTILITIES	23.1	S&P 500 INDEX	37.6

*Appreciation plus reinvested dividends and capital gains before taxes, Dec. 30, 1994 - Dec. 8, 1995

DATA: MORNINGSTAR INC.

advantage of companies that of- proprietary technology products. :ause they provide products that specialized niches... these compa- may be well-positioned to grow ings whether or not the rapid vth in the semiconductor industry inues," he says. Two such holdings Atmel Corp., a maker of memory logic chips, and Linear Technology)., which produces so-called linear grated circuits.

WTH AHEAD. Tech stocks also fu- the performance of the second- -performing fund. The $40 million r Capital Appreciation Fund racked 73.5% return by having more than of its assets in tech and by lever- g—borrowing against about 20% of ssets during the year to buy more ks. Fund manager David D. Alger ed up on chip stocks during 1995 has since trimmed them to 14% of fund. Alger isn't using any leverage ently. His largest positions include puter stock Altera, Canadian phar- eutical company Biochem Pharma, ler Gap, and telecom company U.S. otics.

rowth funds are expected to be ng performers in 1996. Alger ex- s growth stocks to have a very l year compared with the broad ket. "Growth stocks underper- ied the market in 1993 and 1994, so have a lot to go on the upside," he . Jay Schabacker, editor of newslet- *Mutual Fund Investing*, is also on the prospects for growth funds vell as equity-income funds. He the T. Rowe Price Equity Income d, which is well-represented in ar- he favors, such as financials, util- , and health.

tellar returns from tech funds have stors wondering if they should take its. Alger feels that the outlook for is bright. "What you're seeing now blip where people got overexcited ome areas of the technology indus- and there has been a slight slow- n," says Alger. "These stocks are aordinarily cheap... they have re- ched a lot."

erald Malone, co-manager of the l million Alliance Technology A d, up 51%, is also a tech bull. "In- ors are concerned about whether is more sensitive to an economic down today," he notes. "But you l to go beyond that and realize that worldwide penetration of the consu- market by technology is still in early stages." While expecting ver rates of growth from tech ks in 1996, Malone and co-manager er Anastos like semiconductor ks, which they think will benefit n strong unit growth in personal

EQUITY FUNDS: 1995's WINNERS AND LOSERS

THE BEST	TOTAL RETURN*	THE WORST	TOTAL RETURN*
FIDELITY SELECT ELECTRONICS	74.4%	WRIGHT EQUIFUND-MEXICO	–38.0%
ALGER CAPITAL APPRECIATION	73.5	EV MARATHON GREATER INDIA	–35.1
FIDELITY SELECT AIR TRANSPORTATION	70.5	BT INVESTMENT LATIN AMERICAN EQTY	–27.2
PERKINS OPPORTUNITY	70.2	MERRILL LYNCH LATIN AMERICA B	–26.3
GOVETT SMALLER COMPANIES A	65.0	HERCULES LATIN AMERICAN VALUE	–24.8
TURNER SMALL CAP EQUITY	62.8	UNITED SERVICES GOLD	–24.2
DOMINION INSIGHT GROWTH	62.4	G.T. LATIN AMERICA GROWTH A	–24.0
SMITH BARNEY SPECIAL EQUITIES B	60.5	MORGAN STANLEY LATIN AMERICAN A	–22.7
FIDELITY SELECT COMPUTERS	59.5	TCW/DW LATIN AMERICAN GROWTH	–22.6
IDEX II AGGRESSIVE GROWTH A	58.4	PIONEER INDIA A	–22.5
WHITE OAK GROWTH STOCK	57.7	AMERICAN HERITAGE	–22.4
WASATCH MID-CAP	56.1	TCW GALILEO LATIN AMERICA EQUITY	–21.7
UNITED SCIENCE & TECHNOLOGY A	56.0	T. ROWE PRICE LATIN AMERICA	–21.2
BT INVESTMENT SMALL CAP	55.9	RYDEX URSA	–20.9
PIC SMALL CAP GROWTH	54.8	STEADMAN TECHNOLOGY GROWTH	–20.5
TCW/DW SMALL CAPITALIZATION GROWTH	54.7	GOVETT LATIN AMERICA A	–19.8
T. ROWE PRICE SCIENCE & TECHNOLOGY	54.6	BLANCHARD WORLDWIDE EMERGING MKTS	–19.3
JOHN HANCOCK GLOBAL TECHNOLOGY A	54.4	FIDELITY LATIN AMERICA	–18.9
PUTNAM OTC EMERGING GROWTH A	54.4	LINDNER BULWARK	–15.8
SELIGMAN COMMUNICATIONS & INFO A	53.5	ROBERTSON STEPHENS DEV. COUNTRIES	–14.8
FIDELITY SELECT HOME FINANCE	53.5	G.T. GLOBAL EMERGING MARKETS A	–14.7
FIDELITY SELECT SOFTWARE & COMP.	52.5	UNITED SERVICES CHINA REG. OPPORT.	–14.1
TCW GALILEO SMALL CAP GROWTH	52.5	UST MASTER EMERGING AMERICAS	–13.7
RYDEX NOVA	52.4	LEXINGTON STRATEGIC INVESTMENTS	–13.3
SELIGMAN HENDERSON GLOB. TECH. A	52.1	RBB-BEA EMERGING MARKETS EQUITY	–13.2
FREMONT U.S. MICRO-CAP	51.6	SCUDDER LATIN AMERICA	–11.8
ALLIANCE PREMIER GROWTH B	51.4	PAINEWEBBER EMERGING MKTS EQUITY A	–11.7
FIDELITY SELECT TECHNOLOGY	51.3	MORGAN GRENFELL EMERG. MKTS EQUITY	–11.7
FIDELITY NEW MILLENNIUM	51.3	PIERPONT EMERGING MARKETS EQUITY	–11.6
ROBERTSON STEPHENS VALUE + GROWTH	51.2	WRIGHT EQUIFUND-ITALY	–10.7
JURIKA & VOYLES MINI-CAP	51.1	MONTGOMERY EMERGING MARKETS	–10.4
ALLIANCE TECHNOLOGY A	51.0	TCW GALILEO EMERGING MARKETS	–10.4
T. ROWE PRICE NEW HORIZONS	50.9	UAM ACADIAN EMERGING MARKETS	–10.2
JOHN HANCOCK SPECIAL EQUITIES A	50.4	SMITH BARNEY PRECIOUS MTLS & MINS B	–9.8
VISTA SMALL CAP EQUITY A	50.2	JAPAN	–9.6
SIFE TRUST	49.8	GOVETT EMERGING MARKETS A	–9.3
INVESCO STRATEGIC HEALTH SCIENCES	49.8	WRIGHT EQUIFUND-JAPAN	–8.8
SIT SMALL CAP GROWTH	49.5	SEVEN SEAS EMERGING MARKETS	–8.5
BARON GROWTH & INCOME	49.4	STEADMAN AMERICAN INDUSTRY	–8.2
TORRAY	49.4	MORGAN STANLEY EMERGING MARKETS A	–8.1
DAVIS FINANCIAL A	49.3	DREYFUS INTL RECOVERY	–7.9
IDEX 3	49.2	LAZARD EMERGING MARKETS	–7.9
DEAN WITTER HEALTH SCIENCES	49.1	GLENMEDE EMERGING MARKETS	–7.8
DAVIS GROWTH OPPORTUNITY A	49.1	ASIA HOUSE ASEAN GROWTH	–7.4
FRANKLIN CA GROWTH	49.0	MERRILL LYNCH DEVEL. CAPTL MKTS B	–6.8
FIDELITY SELECT REGIONAL BANKS	48.8	GIT WORLDWIDE GROWTH	–6.6
FIDELITY SELECT FINANCIAL SERVICES	48.8	LEXINGTON WORLDWIDE EMERGING MKTS	–6.5
USAA AGGRESSIVE GROWTH	48.5	SIT DEVELOPING MARKETS GROWTH	–6.3
ALGER SMALL CAPITALIZATION	48.3	FIDELITY PACIFIC BASIN	–6.2
MAIRS & POWER GROWTH	48.2	VAN ECK INTL INVESTORS GOLD A	–6.2

* Appreciation plus reinvested dividends and capital gains before taxes, Dec. 30, 1994 - Dec. 8, 1995

DATA MORNINGSTAR INC

Despite tech funds' recent hammering, their gains eclipsed health care, banks, and insurance

computers. They also like wireless communications stocks, although they cite short-term concerns about the rate of growth in the cellular subscription base. Other stocks among their favorites are service companies such as Electronic Data Systems, First Data Co., and DST Systems.

PICKUP OVERSEAS? Investors who ventured abroad missed out on the biggest returns in 1995. International equity funds returned, on average, 6.3%. Diversified emerging-market funds were the worst-performing group, down 5.7%. Pacific stock funds gained less than 2%. Funds that focus on European stocks, however, were up 13.2%. Better performance came in international bond funds, which gained 15.5% thanks to a weak U. S. dollar.

In 1996, the international equity funds may perk up. In the last two weeks of November, there was a small pickup in the flow of money into international equities after two straight months of outflows, notes Robert Adler of AMG Data Services, which tracks weekly fund flows. Kurt Brouwer, of San Francisco investment advisory Brouwer & Janachowski, says Europe and Japan have "explosive potential" but need a catalyst to produce the returns that their markets are capable of. Bullish investors might look into the Warburg Pincus Japan OTC Fund, which editor Schabacker of *Mutual Fund Investing* recommends for aggressive accounts. The risky fund owns the smallest of the small-cap Japanese companies.

Where did mutual-fund investors place their bets in 1995? Equity funds received a steady inflow, with $97.4 billion in net new cash flow as of October. Robyn Tice, a spokeswoman for Fidelity Investments, says November may turn out to be the strongest month of the year for sales of domestic equity fund As of Nov. 24, Fidelity had $2.4 billi in net sales of domestic equity fun for the month. That compares with $6 million for all of November, 1994.

Taxable-bond and income funds, contrast, saw $7.4 billion flow out t door. But after four months of hea redemptions early in 1995, the funds h four straight months of inflows as of O tober. Much of that has gone into hig yield bond funds, which had an avera return of 15.3% for the year. That f short of convertible-bond funds' 20.1 return and the 16.7% return of gover ment bond funds investing in Treasuri

BOND ANOMALY. One of 1995's big su prises was the rally in bonds. Low infl tion and declining interest rates led some spectacular returns at funds i vesting in long Treasuries. The top-pe forming bond fund, $565 million Be ham Target Maturities 2020, ended t year up 56.7%. Fund manager Dav Schroeder invests in zero-coupon bon maturing in 2020. "Performance h been strong because as interest rat decline, the fund does well," he say Next year may not be so kind: "T bulk of the decline in rates is probab behind us. I wouldn't expect price a preciation to be as big a part of t fund's total return in 1996."

Municipal bond funds also did we The top-performing muni fund, Califo nia Muni, gained almost 33%, compare with a 20% loss in 1994.

The worst-performing bond fund w an anomaly. Astra Adjustable Rate S curities IV lost 37.5% in value. The on negative returns of the year, in fac were in a series of Astra funds. The are an unusual case: In 1994, the func invested in private-issue adjustable ra mortgages (ARMS), instead of safer go ernment-backed ARMS. Credit qualit problems arose, fund net asset valu slumped, and shareholders started r deeming. That started a vicious circ as the fund was forced to sell illiqui securities at distressed prices.

After such a gangbuster year i the stock and bond markets in 199 there's a strong chance that 1996's r turns will pale by comparison. At leas that's the way a Scrooge might thin More sanguine investors might raise glass to an outstanding year and loo forward to a more subdued bull marke

By Suzanne Woolley in New Yor

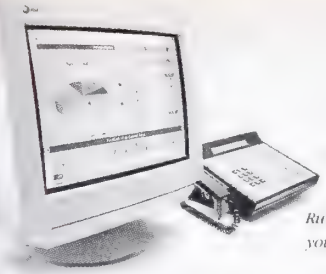
THE BEST OF THE BOND FUNDS

TAXABLE FUNDS	TOTAL RETURN*
BENHAM TARGET MATURITIES 2020	56.7%
BENHAM TARGET MATURITIES 2015	48.6
BENHAM TARGET MATURITIES 2010	39.1
RYDEX U.S. GOVERNMENT BOND	33.5
AAL U.S. GOVT ZERO COUPON SERIES 2006	33.3
SMITH BARNEY INV. GRADE BOND B	32.2
BENHAM TART MATURITIES 2005	30.3
LOOMIS SAYLES BOND	29.5
RUSHMORE U.S. GOVT LONG-TERM	29.5
MONITOR MORTGAGE SECURITIES INV.	29.4
MANAGERS BOND	29.4
CALAMOS CONVERTIBLE	29.0
FIDELITY SPARTAN LONG-TERM GOVT BOND	28.4
CGM FIXED-INCOME	27.9
VANGUARD ADMIRAL LONG-TERM U.S.	27.8
VANGUARD F/I LONG-TERM U.S. TREASURY	27.7
VANGUARD BOND INDEX LONG-TERM BOND	27.4
BENHAM LONG-TERM TREASURY & AGENCY	27.0
DAVIS CONVERTIBLE SECURITIES A	26.5
T. ROWE PRICE U.S. TREASURY LONG-TERM	26.2

TAX-FREE FUNDS	TOTAL RETURN*
CALIFORNIA MUNI	32.9%
DELAWARE TAX-FREE USA INTERMEDIATE B	29.3
SAFECO CA TAX-FREE INCOME	25.1
FUNDAMENTAL FIXED-INC HIGH-YLD MUNI	24.9
SAFECO INSURED MUNICIPAL BOND	23.9
ALLIANCE MUNI INCOME INSURED CA A	23.6
SAFECO ADVISOR MUNICIPAL BOND B	23.1
ALLIANCE MUNI INCOME CA A	23.1
ALLIANCE MUNI INCOME II MI A	23.0
UST MASTER LONG-TERM TAX-EXEMPT	22.6
ALLIANCE MUNI INCOME II FL B	22.5
BLANCHARD FLEXIBLE TAX-FREE BOND	21.8
SMITH BARNEY CA MUNICIPALS A	21.7
EVERGREEN SC MUNICIPAL BOND Y	21.6
USAA TX TAX-FREE INCOME	21.5
ALLIANCE MUNI INCOME INSURED NATL A	21.4
USAA CA BOND	21.3
EVERGREEN SC MUNICIPAL BOND A	21.3
ALLIANCE MUNI INCOME NATIONAL A	21.3
ALLIANCE MUNI INCOME II PA A	21.2

* Appreciation plus reinvested dividends and capital gains before taxes, Dec. 30, 1994 - Dec. 8, 1995

DATA: MORNINGSTAR INC.



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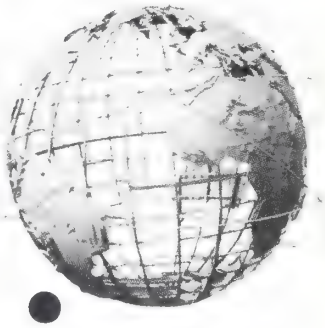

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The Party Winds Down in the Bond Market

Decent yields are available. But big capital gains? Not this year

Economics may be the dismal science, but it's difficult to find an economist these days with a dreary 1996 forecast. That said, even those who expect short- and long-term rates to decline a bit further next year generally agree that most of the juice has already been squeezed out of the bond market. And they warn that investors hoping for continued capital-gains-driven double-digit returns had better be prepared to look elsewhere.

The consensus of economists is that the nation's growth rate, as measured by gross domestic product, will slow next year, but they believe that consumer inflation will remain steady at a moderate 2.8%.

TOO ROSY? And most Fed watchers think that the central bank will cut the benchmark Fed funds rate by at least half a percentage point by the end of the first quarter. Some, such as Merrill Lynch & Co. and the WEFA Group, believe that the economy will grow somewhat faster and that the rate of inflation will be somewhat lower than the consensus. They also think the market is a bit too optimistic about the longer-term prospects for budget reduction. Andrée-Anne Desmedt, WEFA's director of U.S. Financial Services, believes the long bond will inch up to 6.3% by late next year. Martin J. Mauro, senior economist at Merrill, is looking for 6.45%.

More bullish on the bond market is Neal Soss, principal of Soss & Cotton, a New York economic consulting firm, which expects no unpleasant surprises in 1996. The firm projects 2% inflation, 2% GDP growth for the year, and a 5.5% 30-year bond by yearend. "It's pretty hard to come up with a sector of the economy that's shockingly strong," he says. His argument: The consumer is cautious, and housing starts and sales appear to have leveled off. Capital spending is slow, and industrial capacity utilization is at a noninflationary level. Commodity prices are in check. Low rates in Japan relative to those in the U.S. should keep Japanese investors keen on Treasuries. And while wage pressures have become a concern at the Fed, Soss isn't worried.

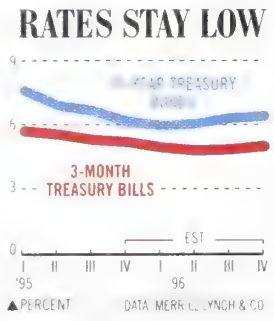
So what does this generally benign economic outlook mean for bond investors?

If there is one sector of the fixed-income market that almost all strategists agree is the mo attractive, that sector is municip bonds. Supplies of munis have shru dramatically because of state and l cal government belt-tightening. Tha coupled with exaggerated fears th Congress will enact tax reforms with flat tax as the centerpiece, make m nicipal bonds a bargain for individua in the top tax brackets. Right no yields on tax-free securities relative those on the 30-year Treasury bo are around 90%.

BIG BITE. A word of caution: With t day's low interest rates, it doesn't ta a big increase in yields to take a b bite out of the principal on longer-ter instruments. "An inflationary bia could spell danger for the small i vestor, warns A. Keith Brodkin, chai man and CEO of Massachusetts Fina cial Services Co.

In the taxable sector, governments the five- to seven-year range look like good bet if the economy grows slowl Ian A. MacKinnon, senior vice-pres dent of the Vanguard Group, who a vises shortening maturities, points o that investors who drop back from 2 year to 10-year issues give up just 2 basis points in yield. With little thre of a recession in the next year, exper think that high-quality corporate bon as well as junk issues should also pe form reasonably well.

Bond-market gurus think mortgag backed securities, notably Ginnie Mae which are now yielding about 7%, al hold promise in this era of low rate But they differ a bit o when the investor shou strike. If rates fall sharp enough to trigger a rus of prepayments, investo will lose some of the principal. William Gross, managing direct of Pacific Investme Management Co., whic runs the nation's large fixed-income portfoli says he would wait unt the Fed funds rate fal



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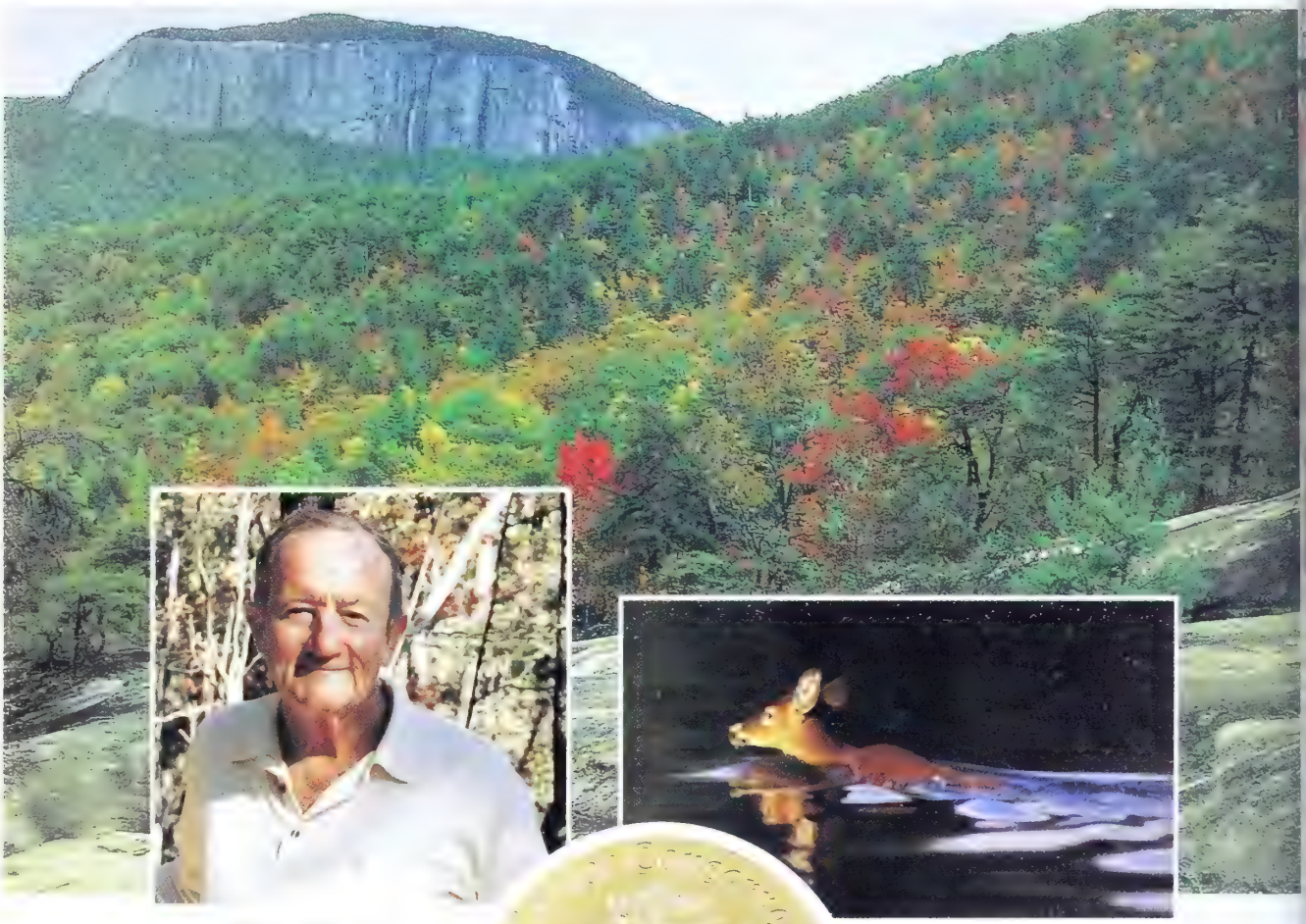

Tommy Wyche

Photography by Tom Blagden

Union Camp Corporation and The Conservation Fund are pleased to announce that C. Thomas Wyche of Greenville, South Carolina, is the winner of the 1996 Alexander Calder Conservation Award. Tommy Wyche is being honored for his continuing efforts over two decades to preserve 40,000 acres in the Blue Ridge Escarpment in South Carolina. The alliance he forged between landowners, businesses, conservation groups and government agencies helped preserve this beautiful range of mountains, waterfalls and wildlife habitat.

The annual Calder Award recognizes individuals who protect wildlife habitat in the United States through a partnership of business and conservation. The award is accompanied by a $10,000 grant from Union Camp. This year's recipient has shown that individuals can make a difference in the conservation of America's special places. His success will inspire others to seek out similar partnerships and continue the legacy initiated by Alexander Calder Jr., a former chairman and CEO of Union Camp.

The Conservation Fund and Union Camp congratulate the winners!

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bout 5%. Mortgage funds, he says, ıld be the best buys of 1996."

here are other niches—albeit not ıy—in the bond market where indiıal investors can eke out above-avge yields without losing too much p over principal. Gross and others think preferred shares of some foreign banks are worth considering. Dividend yields on A-rated preferreds issued by Spain's Banco Santander and Banco Bilboa Vizcaya are running upwards of 9%. Because Germany's economy is sluggish and inflation is low, Gross also likes Germany's 10-year "bunds," now yielding about 6.125%. These are available as individual issues as well as in global bond funds.

ıother fruitful niche is closed-end d funds. Gross points out that disıts on many closed-end bond funds e lately widened to as much as 15%, wing investors to pick up some ıs there. To do so, says Thomas J. 'zfeld, head of a Miami money-manment firm bearing his name, intors should act soon because of ıt he calls the "December phenomn." Fund investors with paper lossend to sell these issues in Decemto take tax losses before yearend. ıs, discounts tend to widen in Deıber and contract in January.

Ierzfeld likes funds trading at ve-average discounts, such as the ckRock 2001 Term Trust, which is ing at a 15% discount. He expects discount to shrink by five percentpoints by January. And for the d-income investor with a healthy etite for risk, Gross recommends d funds containing issues of Artina, Brazil, and, yes, even Mexico, he relatively stable interest rate ıate he expects next year. Some these funds are now yielding as ch as 15%.

Last year, Vanguard's MacKinnon dicted—incorrectly, as it turned —that 1995 would be the "year of coupon" rather than a year of fat ital gains. He reiterates that preion for 1996. But this year he may right.

By Phillip L. Zweig in New York

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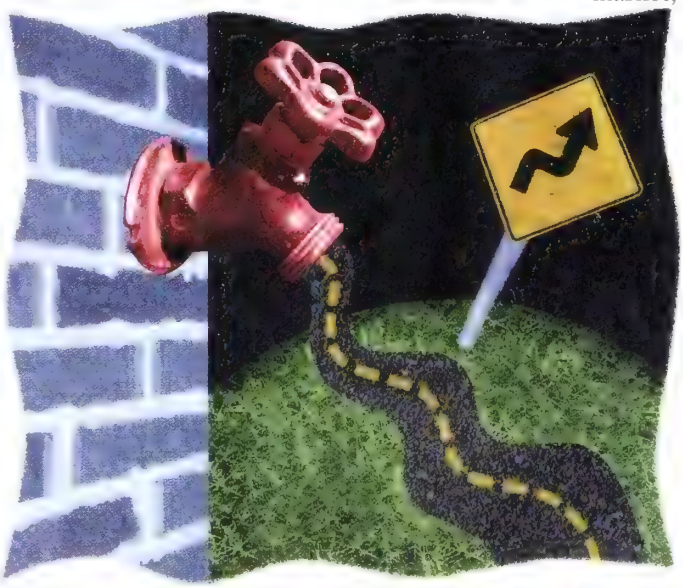
Changes in tax laws could turn munis upside down

Think it'll be a good year for municipal bonds? There are a stack of reasons to say yes: Limited supply should drive prices upward, high yields should lure buyers, and strong state finances should protect bond payments.

But tread carefully. Also in the mix is the possible elimination of munis' tax advantage, federal spending reductions that could hurt states and localities, and local resistance to higher taxes that could be used to back bonds. There is also the chance that the economy could weaken, damaging municipal credit quality. "The municipal market is on firm ground—as long as the outlook for inflation and the economy stays in the range it's in," says Paul C. Williams, vice-president and manager of investment strategies and research at John Nuveen & Co.

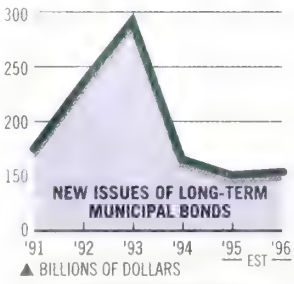


SCARCE COMMODITY. As in 1995, the supply of new municipal bonds will be limited. Experts expect $155 billion or less in new long-term issues—about the same as the roughly $150 billion issued during 1995. Those new issues will be more than offset by the bonds that will mature during 1996—some $150 billion to $175 billion, Williams says. Scarce supply could drive muni prices higher. Already, says James J. Cooner, senior vice-president and manager of tax-exempt bonds for Bank of New York, "anybody who's in the market every day buying bonds would appreciate that it is getting harder to buy particular types of bonds at the right price."

The relative health of state and municipal finances also helps. The National Governors' Assn. says that states' fiscal condition is better now than it has been since the late 1980s. And yields on muni bonds are extremely high relative to those offered by Treasuries. Yields on long-term munis are approaching 90% of those on Treasuries. That means the aftertax yields on munis are as much as 30% higher for investors in high-tax states.

Yet all these positives could be overshadowed by a major potential problem: the flat tax. The prospect of a fundamental reshaping of the tax system that would eliminate munis' tax advantage has kept muni returns below those on taxable bonds in 1995. And a federal commission that is studying tax-law changes is expected to recommend a flat-tax system in 1996. Some say major tax reform is unlikely in an election year. But worries about a possible change could continue to depress muni prices.

STILL IN SHORT SUPPLY



DATA: PUBLIC SECURITIES ASSN

Reductions in federal spending are also worrisome. The cuts could hurt states and localities—and taxpay resistance to higher local taxes wo make things worse. "My real conce is... expenses will get bucked down states and municipalities, and then w have an economic slowdown," says Ri ard J. Moynihan, who oversees Dre fus Corp.'s $27 billion in tax-exem funds. "Those municipalities are going have to pay the piper at that point."

For those willing to wade into t market, it's best to play it safe. E perts recommend reven bonds, particularly from stat such as California and Tex where the economies are i proving. For New Yorke Christopher M. Dillon, a vi president in municipal mark strategy at J.P. Morgan Co., points out that ma bonds from that state a scheduled to be issued in D cember. That could cause a d in prices.

MANY RISKS. As for types bonds, Bank of New Yor Cooner recommends mu that are issued to finance w ter and sewer projects. Su essential projects are mo likely to continue to be fun ed even during a fiscal cris Nuveen's Williams likes tra portation bonds, noting that a numb of major airport bonds, including tho for the Denver airport, have be upgraded.

Whether to buy insured bonds bonds that earn high ratings on their own merit is a matter of some debate. Bank of New York's Cooner says some AAA-rated insured bonds now offer higher yields than some uninsured AA-rated bonds, and investors should take advantage of that. But Dreyfus' Moynihan says insured bonds may be less liquid, and therefore harder to sell.

ACTION

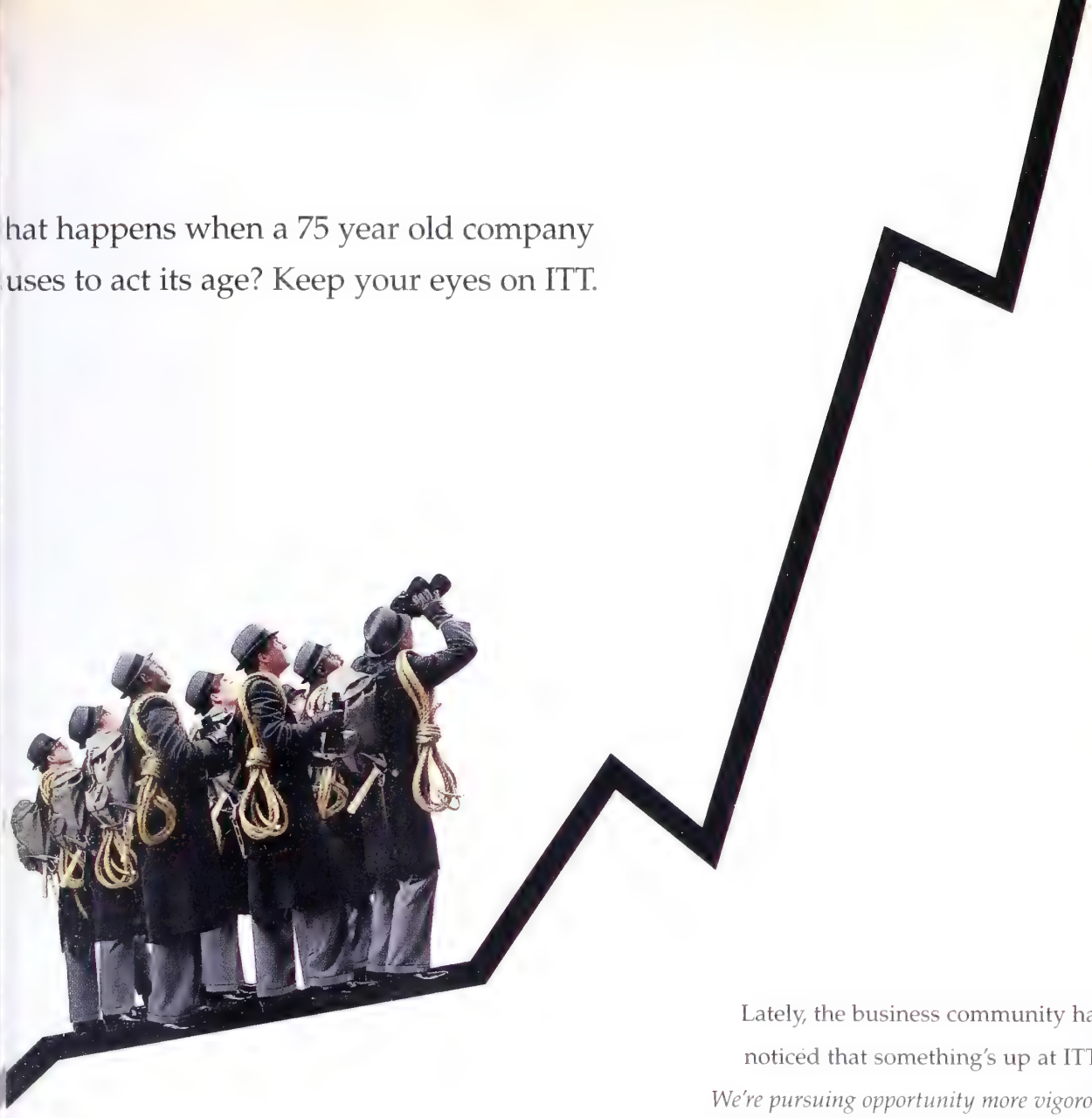
TAKE CA

Revenue bonds wi do bette than general obligatio if times g tough

That's just one risk among many for the muni market in 1996, which is likely to be unusually fraught with bo good and bad news. It will be a year keep an especially close eye on yo portfolio—and on Washington.

By Kelley Holland in New Yo

hat happens when a 75 year old company
uses to act its age? Keep your eyes on ITT.



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Which Futures Have a Future?

Commodities look lackluster, but there may be a few gems

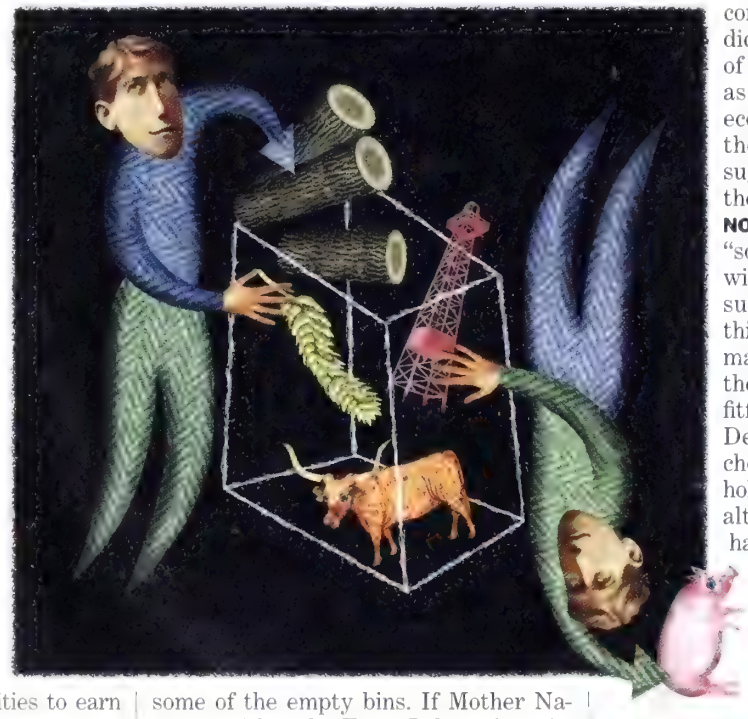
Overshadowed by the drama in stocks and bonds, commodity markets had a case of the blahs in 1995. Hot money that had pumped up the action in '94 found greener pastures elsewhere. The previous year's most active market—coffee futures—suffered a 26% decline in turnover through November, while volume in commodity markets overall remained flat and prices edged up barely 4%. Commodities were "outclassed by the stock market," concludes William Byers, head of futures research at Bear, Stearns & Co.

With no sign of inflation on the horizon, 1996 could bring more of the same: commodities whiling away the year in choppy trading, with only a small upward trend. But as always, each market marches to its own drummer: Soybeans could boom even if crude oil remains dormant. Investors in the right place at the right time will find opportunities to earn respectable returns.

But where to look? The grain and oilseed markets seem the most likely suspects for big moves in '96. While other commodities languished, several in these categories made big gains as of Dec. 11: 50% for corn, 27% for wheat and 29% for soybeans, mainly the result of adverse weather.

YEAR OF THE BEAN? Hard times in the Midwest sowed profits for trend followers such as Steve K. DeCook of Fundamental Futures Inc., whose $70 million agricultural trading fund had jumped 27% through mid-November. DeCook is betting the next big play will come in soybean futures, which haven't rallied as much as corn despite equally tight supplies. A move to $8 per bushel from $7.23 as of Nov. 30 could happen "in a very short time," DeCook predicts. "Ninety-six may be the year of the bean. We just need a catalyst to push it along."

Weather is likely to be more of a catalyst for price moves than usual. Grain and soybean stockpiles are so tight that even an abundant crop would fill only some of the empty bins. If Mother Nature punishes the Farm Belt again, prices could soar.

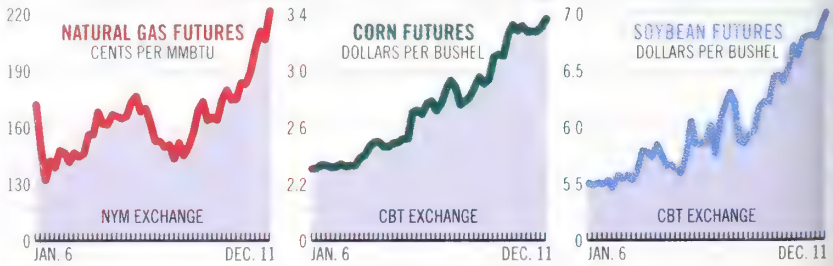


World demand for U.S. farm products, meanwhile, is surging—especially from Asia. "China is becoming a huge factor," says Jacob Morowitz, head of the Chicago Board of Trade member firm USA Trading, who sees "a good deal of potential" for extending the ralli in both corn and beans. Yet contraria can take heart, too: U.S. farmers, fre of government "set-aside" programs th idle land, will try to take advantage higher prices by planting fence post fence post. A bumper crop could provi opportunities for short market pla around midsummer, especially in corr

Demand from Asia will also play b roles in soft commodity markets. Sug could be the best bet for dynamic mov in '96. Huge harvests in Brazil, Cub Europe, and India will continue weigh down prices, which already ha plunged 25% through December 11. "I the first quarter, a lot of sugar will b coming to the market," pr dicts analyst Walter Spill of Smith Barney Inc. Eve as stronger Third Wor economies boost demand f the sweet white powde sugar prices still have fu ther to fall, Spilka posits.

NO JAVA JOLT. Among oth "softs," bumper crops like will keep prices under pre sure and trading activit thin and bumpy. The coffe market seemed drained t the dregs last year, after fitful 40% correction throug December 11 provided choice opportunity for thos holding short positions. No although coffee stockpile have grown tighter, trader doubt that java prices wi perk up again. Consume demand remains weak the legacy of a 1994 pric spike after Brazilian cro failures. On top of tha the outlook looks brigh for next year's harvest in Brazil. N one is rushing into the flat cocoa ma ket, either. The Ivory Coast, the world top cocoa producer, will be piling record crop on top of robust stockpile Healthy cotton crops in Pakistan, In dia, and China will supplement a U.S

THESE COMMODITIES COULD KEEP ON ROLLING



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harvest that came in below expectatio but is still gigantic.

Energy futures markets have a been beset by abundant supplies. Af 18 months of trendless, sideways m tion, though, petroleum markets beg waking up in November as an ea cold snap set the stage for stronger n ural gas and heating oil demand. That turn ignited investor interest in "crack spreads," the trading of crude oil against its two major refined products: gasoline and heating oil. Yet rallies have tended to be squelched by the looming presence of Iraq. Lifting of the international ban on Iraqi sales could quickly knock as much as $3 from the price of crude, analysts project. And with many efficient new petroleum fields set to begin producing in coming years, prices will be broadly stable, pr dicts Michael S. Schiff of Coast Energ Investments.

ACTIO

HARVES

Grain an oilseed markets seem the most like to witnes big move in '96

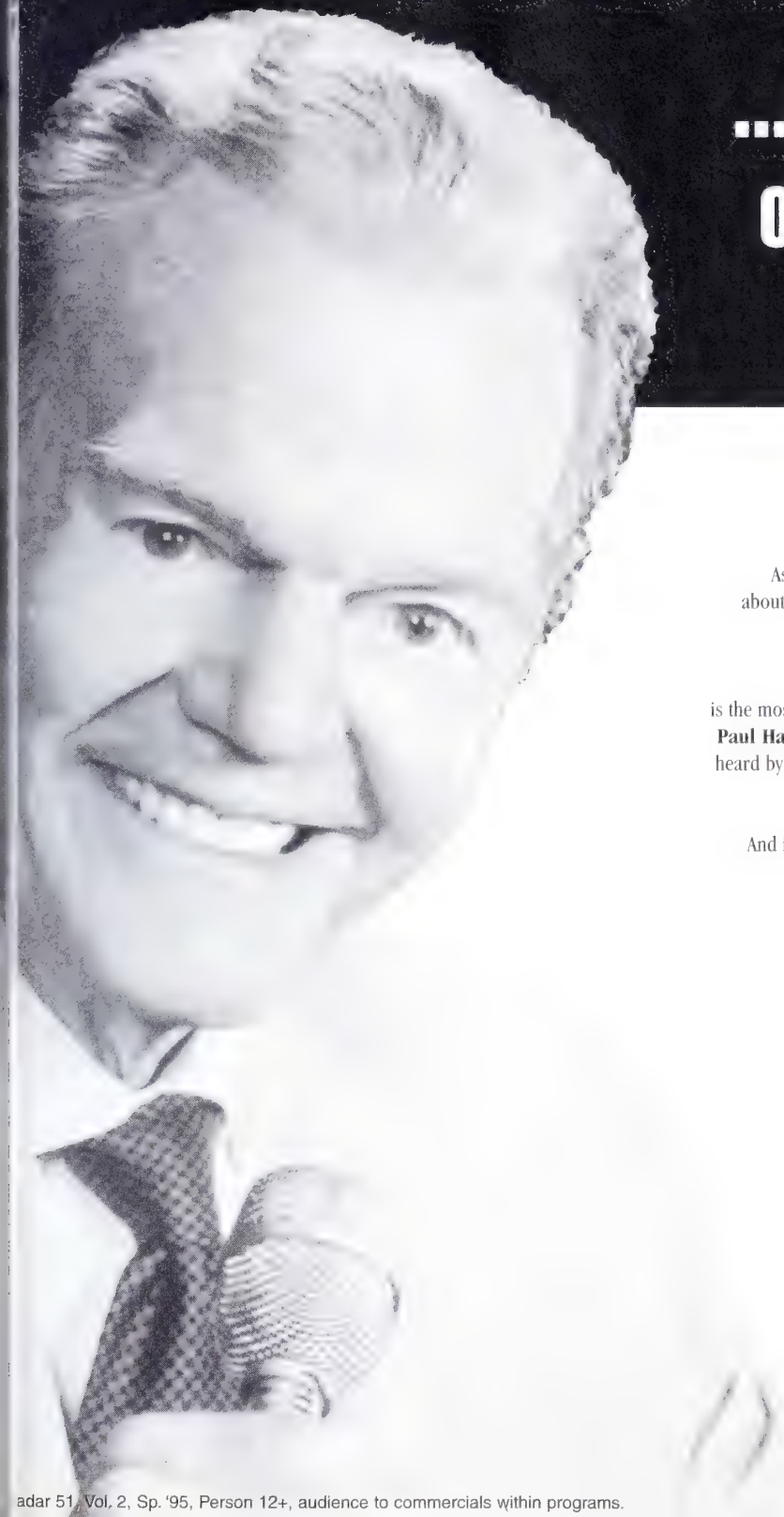
FITS AND STARTS. Of course, even whe supply and demand appear in balanc day-to-day volatility can crop up. Ta industrial metals. Uncertainty and i stability in copper, culminating in a Lo don Metals Exchange investigation, ten porarily sidelined speculators in late '9 Stability likely will return in the fir quarter, says Bette Raptopoulos of Pru dential Securities Inc. Copper price could well continue bouncing around in narrow range, unless a surprise—suc as a bigger-than-expected surge in Asia demand—should spark a rally. Nick and aluminum markets also will b reacting to the pace of economic growt in Asia, analysts say.

For commodities generally, expect modest rise in prices. In coming year says Merrill Lynch & Co. futures stra egist William O'Neill, prices will likel advance fitfully, setting somewhat hig er highs and slightly higher lows. Bu with inflation under control, don't ex pect a boom. And the markets tha matter most—energy for the econom and gold for investor psychology (pag 120)—have moved the least. Bottor line: no reason to chase commoditie unless you're willing to risk a frustrat ing challenge.

By Greg Burns in Chicag

What Does Paul Harvey Have to do With...

...the Price of Raisins?



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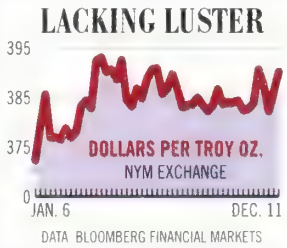
GOLD

Low Risk, But Not Many Thrills

Someday, gold will shine again—but probably not during 1996. Locked in a narrow price range for two years, the gold market remains lusterless. It wheezed through 1995, shrugging off opportunities to rally past $400 an ounce, which is believed to be a key psychological barrier. In 1996, some analysts say, nothing short of a global financial meltdown could goose the yellow metal over that hurdle. Yet with inflation fears tamed, world economies on track, and peace afoot in the Middle East and the Balkans, a global crisis seems increasingly less likely.



Still, gold bugs have some cause to be bullish. There is little downside risk in the metal below $375 an ounce: Dealers as well as investors have proved to be ready buyers when prices fall to that level. And if gold should move convincingly past $400, a sudden surge of investor interest could provide some surprising momentum. "The seeds of increased volatility are there," says commodity analyst Andy Smith at Union Bank of Switzerland. "When something moves sideways for two years, it will probably move [up or down] sharply."

KILLING RALLIES. But even beyond these technical factors, the fundamentals of supply and demand are providing a subtle upward bias. Smith and other bulls believe that producer forward-selling is finally losing its grip on the market. Throughout 1995, mining companies were selling borrowed gold to lock in prices as much as 10 years ahead. That practice squelched any rallies: "The gold market has been depressed by an unprecedented, unsustainable flow of borrowed gold," explains Caesar Bryan, manager of the $15 million Gabelli Gold Fund. Recently, however, producers have had to pay much more to borrow the metal for forward-selling. Gold "lease rates" spiked up from the usual 1% to as much as 6%. As higher costs discourage forward-selling, the gold bugs reason, a key drag on the market could be greatly reduced.

At the same time, gold supplies are shrinking, and the demand for the metal, particularly from Asia, is surging. World gold demand in the first half of 1995 soared 21%, according to Gold Fields Mineral Services Ltd. The buying was led by Japanese investors who were accumulating the metal at historic lows in terms of yen. Demand for investment as well as jewelry fabrication boomed in India, China, and elsewhere in Asia. Robust demand is far outpacing new mine supply, which declined by 1.4% in the first half of '95. "The market is getting tighter," says Gold Fields analyst Philip Klapwijk.

A LONG SLIDE. There is, in short, a legitimate case for higher prices. But for investors, golden opportunities have never been a simple matter of supply and demand. Gold has made its mark on the investment psyche as a storehouse of value, a hedge against disaster, and a concrete physical holding in a financial world of paper and bytes. Over the past decade, though, gold's importance has diminished. Investors worldwide have access to a vastly increased array of financial products to hedge risks. Technological advances allow the rapid shift of funds into different currencies. So a flight to quality these days often means a move into a financial instrument rather than into gold. The metal has failed to respond to disquieting global events ranging from the Persian Gulf war to the 1994 dollar collapse.

Perhaps gold will revert to its traditional role if many events occur at once: surging inflation, currency devaluations, financial illiquidity, oil crises. "It would take a confluence of a lot of those factors," says J. Clarence Morrison of Prudential Securities Inc. For all but doomsday investors, though, many other markets beckon more persuasively.

By Greg Burns in Chicago

BusinessWeek

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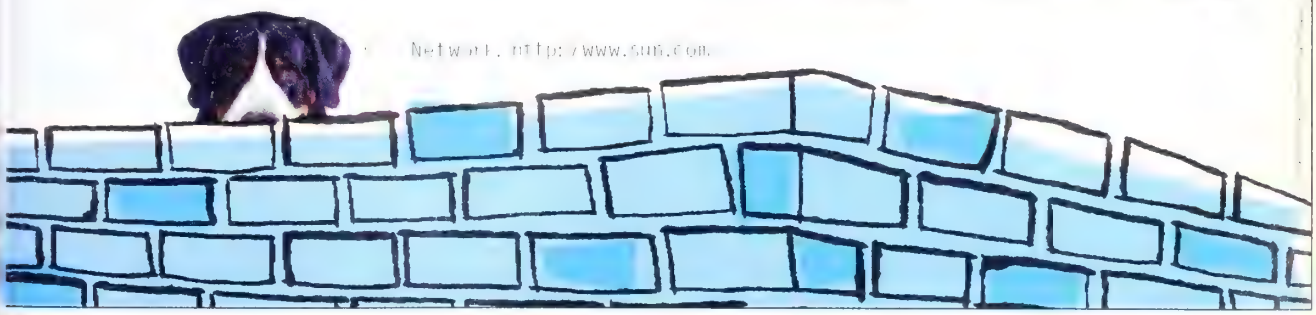


A Slow, Steady Reconstruction

Property offers modest returns. But watch your flanks

In 1995, the commercial real estate market continued its steady recovery from the devastation of the late 1980s. For the third year in a row, vacancies for most types of property fell, and rents in some markets edged upward. But despite signs of new life in a few sectors, cautious industry executives say the good news doesn't mark a return to the glory days of soaring asset values and bold construction deals. That means real estate investors in 1996 face a market that offers respectable, but not spectacular, returns.

While the end of the go-go days of the 1980s bodes well for continued strengthening of real estate fundamentals, it meant ho-hum returns for investors in 1995. According to Morningstar Inc., real estate mutual funds were up 10.4% for the year as of Dec. 8. Meanwhile, the Standard & Poor's 500-stock index was up 35.3%.

LAGGARDS. Real estate investment trusts (REITs) have been market laggards. Much of the money that flowed out of REITs in 1994, when interest rates moved up, has not returned. And while most REITs went public promising double-digit earnings growth, many didn't deliver because of heavy debt or competition for deals that limited growth. "There was some overhyping of the business in 1993 and 1994," says Mike Kirby of Green Street Advisors Inc. in Newport Beach, Calif.

Some aggressive building activity has also given investors jitters. Apartment construction is up 70% since 1993. Retailers and shopping-center developers were also aggressive, adding about 260 million square feet in 1995, just 4% off the peak of the mid-'80s.

Although some analysts warn of overbuilding, the construction boomlet creates buying opportunities. Barry Greenfield, who runs the $672 million Fidelity Real Estate Investment Portfolio, likes Bay Apartment Communities Inc. in San Jose, Calif. In addition to building new properties, Bay buys and renovates run-down apartment buildings in Silicon Valley and downtown San Francisco. With rents rising 6% in some spots, Greenfield thinks the stock, now trading around 23, will generate a total return of about 16%.

In the retail sector, the best bets are companies at the higher end of the market, such as Taubm Centers Inc. in Bloomfield Hills, Mic which are less affected by the buildi frenzy that has thinned out the ranks discounters. While a slow retail en ronment may mean weak growth, Tau man's stock, at 9%, is a bargain at abo 11 times cash flow, says Green Stree Kirby.

OFFICE PLAYS. With office vacancy rat dropping in most parts of the count and with new construction rare, vultu investors are hot on office propertie Office buildings were one of the la areas to recover and have the be chance of attracting capital. Chic go real estate magnate Sa Zell may launch an initi public offering for an o fice REIT in late 1996.

But for individual i vestors, there is paucity of office-co pany stocks to cho from. Fund manag Samuel A. Liebe who runs the to performing Eve green U.S. Real E tate Fund, which is u by more than 26%, war that many of those stoc are pricey. He sees bett plays among homebuilders. Si gle-family housing starts, aft falling 11% this year, to just over million units, will very likely pick up 1996. Lieber thinks that U.S. Hom Corp. is well-positioned because strength both in houses for first-tim buyers and in retiree housing. He figures that the price-earnings ratio on U.S. Home, now around 9.3, could increase by 50% over the next two years.

Many real estate pros expected that the hottest action would come from a wave of mergers and takeovers among real estate companies. But so far, that forecast has not panned out. While there have been some deals among REITs, few REIT executives ar willing to take a backseat in any com bined company. While much has change in real estate over the past few year the egos involved certainly have not.

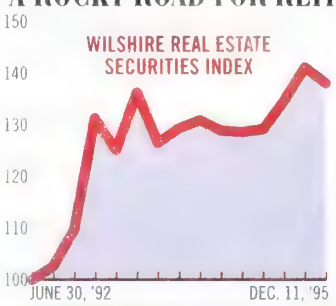
By Amy Barrett in Washingto

ACTION

SHELTER

As single family housing rebounds builders' stock is a good buy

A ROCKY ROAD FOR REITs



▲ INDEX JUNE 1992=100

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		AVERAGE ANNUAL TOTAL RETURNS[2]		
CONSUMER	**FUND INCEPTION**	**1 YEAR**	**5 YEARS**	**LIFE OF FUND**
Consumer Products	06-29-90	15.16%	17.95%	13.93%
Food and Agriculture	07-29-85	24.09	17.72	13.83*
Leisure	05-08-84	20.74	22.85	16.84*
Multimedia	06-30-86	31.86	28.86	17.80
Retailing	12-16-85	4.72	22.65	16.04
CYCLICALS				
Air Transportation	12-16-85	36.61%	19.33%	9.92%
Automotive	06-30-86	9.27	22.18	12.70
Chemicals	07-29-85	9.09	20.49	18.33*
Construction and Housing	09-29-86	8.91	20.13	11.98
Environmental Services	06-29-89	18.62	5.53	5.37
Industrial Equipment	09-29-86	19.76	21.56	11.04
Industrial Materials	09-29-86	7.41	19.96	11.56
Paper and Forest Products	06-30-86	12.46	23.08	12.21
Transportation	09-29-86	7.93	24.41	14.34
FINANCIAL SERVICES				
Brokerage & Invest. Mgmt.	07-29-85	22.33%	26.14%	11.34%*
Financial Services	12-10-81	28.48	32.34	15.09*
Home Finance	12-16-85	26.90	40.16	20.64
Insurance	12-16-85	23.00	20.51	12.47
Regional Banks	06-30-86	25.06	34.36	15.72
ENERGY, UTILITIES, AND NATURAL RESOURCES				
American Gold	12-16-85	-7.47%	6.11%	8.48%
Energy	07-14-81	4.72	2.48	7.96*
Energy Service	12-16-85	19.14	0.87	4.13
Natural Gas	04-21-93	7.60	NA	0.96
Precious Metals & Minerals	07-14-81	-12.33	8.19	8.48*
Utilities Growth	12-10-81	18.11	12.89	13.75*
TECHNOLOGY				
Computers	07-29-85	75.27%	38.90%	20.03%*
Defense and Aerospace	05-08-84	39.60	19.83	8.28*
Dev. Communications	06-29-90	44.83	37.56	26.40
Electronics	07-29-85	91.18	41.10	15.84*
Software/Computer Svcs.	07-29-85	49.66	35.39	21.19*
Technology	07-14-81	57.36	36.28	16.53*
Telecommunications	07-29-85	26.66	24.13	20.77*
HEALTH CARE				
Biotechnology	12-16-85	21.38%	17.44%	15.63%
Health Care	07-14-81	34.79	23.21	21.21*
Medical Delivery	06-30-86	16.92	22.83	14.52

*10-Year Average Annual Total Return
Life of fund returns as of fund inception date

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[1]Foreign investments, especially those in emerging markets, involve greater risks than U.S. investments. [2]Average annual total returns for the periods ending 9/30/95 are historical nd include change in share price, reinvestment of dividends and capital gains, and the effect of the funds' 3% sales charge. Share prices and returns may vary. If Fidelity had not eimbursed certain expenses for some of the funds during the periods shown, those funds' returns would have been lower. Fidelity Distributors Corporation.

Landscape With Ascending Figures

Art auctions are bringing the best prices since their late-'80s heyday

Hard to believe, but French Impressionist paintings were once deemed almost worthless. A neighbor even used a bunch of Pierre-Auguste Renoir's canvases to build a rabbit hutch, ruining the works in the process. On another occasion, in 1894, when painter Gustave Caillebotte died and left some 65 Impressionist paintings to the Luxembourg Museum in Paris, curators reluctantly accepted only half of them—after a celebrated painter described the lot as "filth." The works it took are now at the Musée d'Orsay. The rest were sold off on the cheap, mainly to Americans.

As often happens, taste has changed dramatically with time. Today, French Impressionists' works—along with those of Pablo Picasso—are leading a revival in the art market. With strapped Japanese speculators doing some of the key selling, prices for major works sold at the annual November art auctions in New York and London were sometimes eye-popping, although generally short of the wild levels hit in 1989 and 1990. *Sous-Bois*, a Vincent van Gogh forest scene that Sotheby's had estimated at a high of $10 million, went for $27 million. At Christie's International PLC, Picasso's *Le Miroir* was gaveled down at $20 million. "There's a general feeling of cautious optimism," says David A. Tyler, a top executive at Christie's. "When people see major players spending millions, that has a trickle-down effect on the market as a whole."

"VERY ATTRACTIVE." Signs of improvement abound. The auction houses and many dealers say they are having their best year since 1990. Plus, a lot of dealers are buying at auction—something Sotheby's CEO Diana D. Brooks calls "a sign of confidence in the market." In the glum years of 1990-93, dealers more often stayed away, focusing instead on private sales. Moreover, when key works failed to sell at auction this November, the private market sometimes picked up the slack. For instance, when a Jackson Pollock drip painting, *Number 1, 1952*, didn't meet its Christie's estimate of $4 million to $6 million, New York dealer Robert Mnuchin, a former partner at Goldman, Sachs & Co., quickly snapped it up privately. Mnuchin says he paid "slightly under $4 million" for it, a price he calls "very, very attractive."

All told, the world art market may achieving its own version of a soft lan ing. Its hallmark is a steady price a preciation for many categories, witho the overheating and wild speculati buying of six years ago, when t Japanese were major players. Accordi to the *Daily Telegraph* Art 100 Index figure calculated by London analy Robin Duthy using auction results the works of 100 top artists, prices b tomed out in October, 1994, when the dex hit 3,793. Over 14 months, it h gone up 11%, to 4,207, with most of t rise coming since June. "Great pied by great artists are getting pret damned good prices," says Boston

COLLECTED: *Collector Broad says that contemporary U.S. art "has found a floor"*

FAIREST OF ALL: *sso's* Le Miroir, *0 million*

SWEET PRICE: *Gorky's* Scent of Apricots on the Fields *fetched $4 million*

GREENING: *Van Gogh's* Sous-Bois *sold for $27 million*

or Thomas H. who paid $4 mil- for Arshile y's painting *Scent apricots on the* 's at a Sotheby's on. "But weak s aren't necessar- elling."

t every sector of market is shining. the end of last Duthy's indexes ench Impression- d Modern Euro- art (which in- s Picasso's work) up 17% and 24%, ectively. Latin rican art was also y 13%. But the e for Old Masters off 14%. And ern U.S. paint- —which had risen alue early in the —were down 8%, ly because of a ively poor show- at auction by ers such as Josef rs and Frank a.

ill, there's a good ce that prices of ing and sculpture in general will nue to climb in 1996. For one thing, art market tends to follow trends in economy and stock market. So the omic recovery in Europe will help, although the effect may not be im- iate. Americans have been doing strongest buying, and that is likely eep up, especially if the booms in ts and initial public offerings con- . "Many people have made so much ey that I think prices could go a igher," says Brooks of Sotheby's.

hich is not to say fate won't dge the canvas somewhere along ine. The art market does best when batches of exciting works become able, usually through estate sales. happened in spades in 1995, when estates of such major collectors as producer Joseph H. Hazen and TV ucer Mark Goodson came on the ket, but there's no guarantee of a at in 1996. And fallout from Japan's icial restructuring could still swamp market for Impressionist and mod- paintings as hard-pressed collectors ad their holdings.

ome key collectors see opportuni- even as prices rise. If shipping magnate Sammy Ofer was the buyer of Picasso's *Le Miroir*, as is rumored, he no doubt thinks he got a good price: He paid 24% less than the $26.4 million a Japanese bidder shelled out in 1989. Scott M. Black, chairman of Boston's Delphi Management Inc., thinks he "stole" a painting by Henri-Edmond Cross by paying $475,000 for it. One reason: A Japanese speculator paid 60% more for it during the boom years.

COLOR-FIELD TRIP. The best values, however, may be in contemporary U.S. art. SunAmerica Inc. Chairman Eli Broad, a longtime collector, notes that the price falloff in this category "was very, very severe—with some works selling at one-third of what they should" in the post-1990 slump. But the turmoil may be over. "The market has found a floor and stabilized," he says. The Los Angeles executive recently bought works by Robert Rauschenberg, Andy Warhol, and Alexander Calder.

The daring may want to jump in and buy out-of-favor works. One possibility: color-field paintings by such artists as Frank Stella and Jules Olitski. Or you could try 1980s artists, such as Jeff Koons. The risk is that the work you buy may never come back into vogue.

Smaller buyers don't have to miss out on the action. Sotheby's and Christie's hold auctions year-round, and the vast majority of items go for less than $5,000. An Olitski can be had for as little as $2,000. Prints and drawings, usually far cheaper than paintings, are a good bet, too. Surveying his current stock, for instance, New York dealer Larry Gagosian recommends a $4,500 combination mezzotint and photogravure by Vija Celmins, a Latvian-born artist living in New York. Another possibility is Latin American art. Good pieces can be found for about $5,000.

If you want to try to uncover the next Willem de Kooning or Roy Lichtenstein, the Big Apple is still the best place to look. Start haunting the smaller dealers in lower SoHo—such as Tz'Art & Co. (28 Wooster St.), Jack Tilton Gallery (49 Greene St.), and other galleries within a block or two. In some, you may see wild video installations and "found art"—amid more conventional works. Prices are quite reasonable, ranging from $1,000 to $8,000.

Just remember the main caveat of art collecting: Buy only works you really like, because you may be stuck with them if the market tanks. But don't be too conservative. What seems *outré* today could be all the rage in a decade.

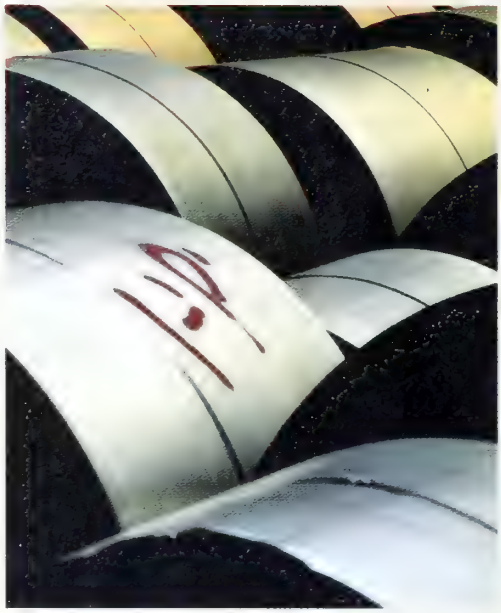
By Thane Peterson in New York

ACTION

BEST BIDS

If you're daring, buy the *passé*. But make sure you won't mind being stuck with it

▼ COOL HAND
Silicon Valley's heart-thumping volatility on Wall Street didn't faze Marc Kaufman, who steered Fidelity Select Electronics to the top



▲ METAL FATIGUE
Cyclical industries took a beating on the stock exchanges, and steel took the biggest beating of all

The Good, the Bad, and the Unspeakable

In 1995, many ate caviar, some ate crow, and a few had to settle for humble pie

Up and up and up it goes; when it'll stop, nobody knows. In this kind of market, which was powered along by Internet and pharmaceuticals plays, it's hard to believe there even were losers in '95. The unhappiest investors were those who picked trendy retailers, riverboat gaming, and oil companies. Below, we sketch the extreme ends of the spectrum, all of which kicked off the year at a share price of $5 or better.

STOCKS

BEST NYSE STOCK *Continental Airlines Holding Inc.* was the wild card in a wildly volatile industry, where the players are at the mercy of their dumbest or most desperate competitor. Until Gordon M. Bethune stepped up to chief executive, Continental appeared to be a little of both. Obsessed with driving down costs, management ultimately drove away customers by reducing first-class and frequent-flier benefits. The airline declared bankruptcy twice. But Bethune beefed up service and shed unprofitable routes. Continental's stock has soared from 6½ to 44¾, an increase of nearly 686%. The threatening clouds now appear to have broken for Continental, which may realize its best margins ever in 1996, says Vivian Lee, an airline analyst at BT Securities Corp. in New York.

WORST NYSE STOCK *Edison Brothers Stores Inc.* Chances are you've never heard of them, despite the fact that their 2,700 clothing and shoe stores are mall staples. But if you're a shareholder, you can only wish you never heard of them.

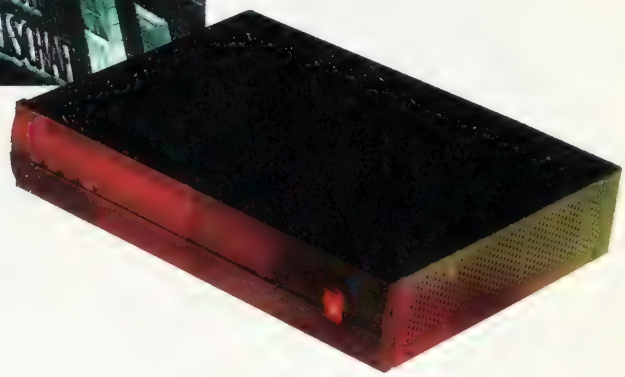
Three years ago, Edison Brothers declared record profits. Last Nove ber, the St. Louis-based chain we into bankruptcy and announced plans close 500 stores. The company's sto was recently trading at 2¼, a preci tous decline of 84% in the last ye "Edison's Achilles' heel was that th didn't have as strong a consumer fra chise as their competitors, like Gap I or The Limited," says Don Spindel, retail analyst at St. Louis-based A. Edwards & Sons Inc. The stores known by several different names specialized in the trendy young me clothes popular in the '80s. It was formula for disaster in the grung plagued 1990s.

BEST AMEX STOCK *Biovail Corp. Interna tional.* Orphaned by analysts when was trading around $7 per share at th start of the year, this Canadian pha maceutical company was the Rodne

S AN ELEPHANT'S EYE
nothing like a lot of
ather and an export
put corn prices
the ceiling

◀ **ALPINE REDOUBT**
Eurocurrency jitters have made Swiss francs the haven of choice for smart money

▼ **INTERNET WORKER**
Ascend Communication's hardware may some day relegate modems to landfills in Jersey



◀ **WALKING THE PLANK**
Tatham Offshore's stock took a plunge after the company bet big on deepwater reserves in the Gulf of Mexico

gerfield of health care. But share-
lers who got in early have had
last laugh. The company's success-
icensing of Tiazac, a time-released
ication for high blood pressure,
propelled the stock to a recent
e of 56½, with a one-year total re-
n of 629.03%.
hree other cardiovascular drug can-
ites will be submitted to the Food
rug Administration by the start of
7, says Eddie Hedaya, an analyst
BioVest Research in Hartsdale, N.Y.
h earnings per share projected to
p from 82¢ in 1995 to $1.68 in 1996
a stunning $3.36 in 1997, according
Hedaya, Biovail is likely to start
ning more than just Wall Street's
pect.

ST AMEX STOCK *Resort Income In-
tors Inc.* was designed as a 12-
r self-liquidating real estate invest-
nt trust (REIT). Liquidate it did,
how.
The mortgage REIT invests in loans
t are secured by property acquired
levelop luxury resorts. Most of the
ck is owned by the company's di-
tors, Chris and Mark Hemmeter, a
ner-and-son team who made big bets
riverboat gaming in New Orleans
y to see their grand plans run
ound in the Mississippi mud (BW—
. 16, 1995). Even worse, the Secur-
s & Exchange Commission began
an investigation and the Hemmeters, who resigned in August, were accused in court complaints of squandering company assets. The stock was recently trading at 1¼, down from its 52-week high of 10½.

BEST NASDAQ STOCK *Ascend Communications Inc.* develops and manufactures a range of high-speed digital wide-area-network access products used by 29 of the top 31 Internet service providers. Its stock managed a total return for the year of a staggering 721%.

The company's flagship product, the Max 4000 WAN access switch, won a $10 million-dollar contract with Pacific Bell Internet Services to support its soon-to-be-available dial-up Internet access service. This agreement and marketing alliances with other regional Bells will fuel the stock's future growth, says Michael Cristinziano, a research analyst at Needham & Co. in New York, who predicts a revenue increase of 263% in fiscal 1995.

WORST NASDAQ STOCK *Tatham Offshore Inc.* is an independent oil and gas exploration company focusing on the deepwater regions of the Gulf of Mexico. Unfortunately, the water in the gulf was too deep to retrieve oil economically. Despite a handful of aggressive buy recommendations from analysts earlier in the year, the stock is currently hovering around 1, a plunge of 92.35%. But what do you expect from a company that has named its three biggest oil discoveries after racehorses—Seattle Slew, Sunday Silence, and the most recent, Spend a Buck? Hold any bets.

BEST STOCK GROUP Peace may be on the march from Bosnia to Northern Ireland to the Middle East, but *defense electronics stocks* are on the rise, fueled by higher earnings. Led by Loral Corp., the group is up 89.4%.

A focus on high-tech applications—one area the Defense Dept. still spends a lot of money on—has benefited these manufacturers of sophisticated equipment. Still, the smartest defense companies are diversifying—a unit of EG&G Inc., for example, now handles assets seized by federal agencies.

WORST STOCK GROUP Anticipating an economic slowdown, Wall Street is fleeing cyclical companies. And no cyclical stock group has sustained worse treatment than *steel* companies. Down 12% for the year, steel is one of only four stock groups to suffer a decline this year. But investors can take heart: The Street's peevish attitude has driven down price-earnings multiples, making such well-regarded steel companies as Nucor, Bethlehem, and Inland Steel

▼ **PIT BULL WITH FRIENDS**
"When you're down, it's lonely," says high-scoring commodity fund manager Ken Jakubzak. "When you're up, everybody is your buddy"

▶ **BLOOD, GUTS, AND HIGH TECH**
Defense electronics was the top gun among stock groups, thanks to the Pentagon's addiction to cutting-edge technology

potentially appealing as long-term investments.

PEOPLE

BEST STOCK FUND MANAGER *Marc Kaufman* credits a series of events from the advent of Windows 95 and the Pentium chip to dynamic PC sales for the eye-popping performance—74.4% as of Dec. 8—of his Fidelity Select Electronics Fund.

Semiconductor plays such as Xilinx, a maker of programmable logic chips, bolstered returns. However, Kaufman isn't worried by the stock group's recent volatility. Investors don't seem too worried either: Assets have grown sixfold—from $200 million to $1.2 billion—since February.

BEST BOND FUND MANAGER *David W. Schroeder* had a lot of time to work on perfecting his golf game this year. The scratch golfer and 40-year-old manager of the Benham Target Maturities Trust sat back and watched while three of his funds—part of a series of six portfolios that invest only in zero-coupon bonds that are derived from Treasury securities—were the year's best performers after spending much of 1994 at the bottom of the bond heap.

The no-load funds—staggered by five-year maturation increments—have benefited from declining interest rates. The 2020 fund is up 56.7% as of Dec. 8. Schroeder concedes that this year's strong returns aren't really all his doing: "There's not much I can do in the way of strategy. We pretty much just drive them in their lanes."

BEST COMMODITIES FUND MANAGER *Kenneth M. Jakubzak*'s currency fund at Chicago-based KMJ Capital Management plunged 13% in '93 and suffered through tough stretches in '94 as well. But in 1995, Jakubzak got it right: The fund soared 149.9% through November, the year's top performance by a commodity manager, according to the Barclay Trading Group fund-tracking service.

The secret? Jakubzak reduced the size and duration of his trades in volatile periods. That paid off when Jakubzak accurately predicted the yen market's rally last spring as well as its summertime reversal. Now, he's a hot commodity himself: KMJ manages $32 million, up from $10 million in early 1995.

MARKETS

BEST COMMODITY As the *corn* supply dwindled, thanks to low stockpiles and weather-ravaged crops—export demand boomed. The combination boosted corn prices to $3.47 a bushel as of Dec. 11 from $2.31 in Janua And the demand is showing no si of abating. If the weather once mo batters the Grain Belt in the comi growing season, corn could be the co modities market's answer to techno gy stocks.

BEST OVERSEAS MARKET *Switzerland.* As tu moil over the envisioned single curre cy continues to shake the Europe Union's exchange-rate system, hot mo ey is pouring into Switzerland. The i flux pushed the Swiss franc to nea record highs, drove short-term intere rates close to 2%, and sent the sto market on a rampage—up 39% in dolla and 24% in local currency terms in 19

But the franc's climb is pricing e porters out of world markets and brin ing economic growth almost to a stan still. Low interest rates should help t country's big banks and insurers, whi Switzerland's multinational pharmace tical giants will benefit from the glob bull market in drug stocks.

The risk is that the Swiss will try weaken the franc and the hot mon will disappear. But as long as the E can't get its currency act togethe Switzerland could remain a sa haven—and pricey investment spot for some time.

By Kerry Capell, with Gary Wei and William Glasgall in New York an Greg Burns in Chicago

Can't Tell the Winners Without a Scorecard

To spot the bargains, here's the earnings breakdown on 900 companies

t has been a great year for the stock market—and a bang-up year for corporate earnings. When finally tallied, 1995 earnings per share 900 companies should be up 41% on rage. And 1996 looks promising, too, ı earnings estimated to rise 19%.

ther optimistic news: Inflation is ning at a tame 2.8%, long-term in- st rates are around 6%. While the nomy is slow, the prospects for a re- sion in 1996 have diminished to al- st nil. Still, the benefits from the st recent wave of corporate restruc- ngs have been squeezed out of most ustries. Companies will feel more in- sely the pressure from better-man- d, more efficient competitors.

USINESS WEEK's Investment Outlook reboard will help you sort through opportunities and pitfalls. Using a from Standard & Poor's Compus- a division of The McGraw-Hill Com- ies, the Scoreboard breaks down the companies into 24 industries, allow- investors to compare key ratios and wth measures company by compa- and industry by industry. I/B/E/S In- national Inc., a Primark company, plies the earnings estimates for 1995 1996 based on its survey of 2,786 lysts.

CKING ALONG. Most striking about predictions for 1996 is the consis- cy of growth the analysts' anticipate. ile eight industry groups should fin- 1995 worse off than the previous r, in 1996 only the steel industry is ected to post declining earnings.

The projected big winner: the truck- and shipping industry, with earn- s expected to jump 106%. Within t industry, Roadway Services Inc. is standout. I/B/E/S projects that Road- y will earn $2.80 a share in 1996, up % from 1995's 64¢ per share. The ron-based trucking company plans to l its air-freight subsidiary, spin off long-haul trucking unit, and change name to Caliber System Inc.

To find investment opportunities, SINESS WEEK looked at the data using investment criteria. The screening vices show that Denver-based Western Gas Resources Inc. is a leader in estimated earnings growth in 1996, while snowmobile manufacturer Polaris Industries' yield of 18.3% is the highest of the 900 companies on the Scoreboard.

A note of caution: What appears cheap may well turn out to be expensive. As Michelle R. Clayman, chief executive officer and chief investment officer of New Amsterdam Partners LP, a New York-based money management firm, puts it: "With value screens, you sometimes find cheap stocks, but you sometimes find cheap stocks that will get even cheaper."

Another measure to see whether a

INDUSTRY GROUP WINNERS AND LOSERS

1995'S STRONGEST...	EARNINGS CHANGE FROM 1994
SAVINGS & LOAN	443%
ALUMINUM	424
PAPER	414
PAPER CONTAINERS	305
FOREST PRODUCTS	242
CHEMICALS	136
NONFERROUS METALS	130
COMPUTERS & PERIPHERALS	129
BUILDING MATERIALS	93
COAL, OIL & GAS	70

1996'S STRONGEST...	EST. EARNINGS CHANGE FROM 1995
TRUCKING & SHIPPING	106%
ALUMINUM	48
HEALTH-CARE SERVICES	45
COMPUTER SOFTWARE & SVCS.	45
COMPUTERS & PERIPHERALS	44
CONSTRUCTION & ENGINEERING	41
BUSINESS MACHINES	41
COAL, OIL & GAS	37
RETAILING	35
PETROLEUM SERVICES	34

...AND WEAKEST	EARNINGS CHANGE FROM 1994
CONSTRUCTION & REAL ESTATE	–23%
TRUCKING & SHIPPING	–23
TOBACCO	–22
EATING PLACES	–18
RETAILING	–17
CARS & TRUCKS	–11
PETROLEUM SERVICES	–9
TEXTILES	–4
GAS UTILITIES	+1
PUBLISHING	+2

...AND WEAKEST	EST. EARNINGS CHANGE FROM 1995
STEEL	–8%
NONFERROUS METALS	+3
ELECTRIC UTILITIES	+3
CHEMICALS	+6
FOREST PRODUCTS	+6
FOOD PROCESSING	+8
BANKS-WEST & SOUTHWEST	+8
TELEPHONE COMPANIES	+9
CARS & TRUCKS	+9
BANKS–SOUTH & SOUTHEAST	+11

Because of actual or projected losses in 1994 and/or 1995, earnings gains or losses cannot be meaningfully calculated on a percentage basis for airlines, broadcasters, construction and engineering companies, and drug distributors.

DATA: I/B/E/S INTERNATIONAL INC.; STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

stock is undervalued is the ratio of stock price to book value per share. The lower the ratio, the more the stock seems underpriced. This year's price-to-book value list is chock-full of retailers, but the top two, Caldor Corp. and Bradlees Inc., went into Chapter 11 in 1995. Stores not in bankruptcy proceedings, such as home-improvement retailer Hechinger, are under intense pressure from larger competitors including Home Depot and Wal-Mart Stores. An investment in any of these embattled companies is not for the risk-averse.

Companies with high price-to-earnings ratios are said to be selling at a premium relative to the market. Does that mean companies with low p-e ratios are bargains? Maybe. Look at Stone Container Corp. Its projected 1996 p-e is 3.6 vs. an average p-e of 13 for the 900 companies. Chicago-based Stone Container makes paper and packaging. Industry forecasts show linerboard capacity increasing by 3.8% a year through 1998, which will put further downward pressure on prices. Newsprint production, though, should go up by only 0.3% a year. A price increase there might stick. Stone has also made some recent acquisitions and pared some high-interest debt, which could improve the bottom line in the years to come.

Another way to search the data is to look for companies with large dif ences in earnings estimates. Topp the variance list is Tele-Communicati Inc. The cable-TV giant's numerous p chases, spin-offs, and strategic allian seem to have left analysts confused; variation among its 21 estimates 850%. If earnings come in surprisin strong, the stock could be a winner.

Any investment you make must accompanied by a hard, in-depth l at the numbers and a cold, clear-e acknowledgement of the risks. Anyth less will turn your investment int mere roll of the dice.

By Frederick F. Jesper in New Y

A MENU OF INVESTMENT OPPORTUNITIES

Be careful. Although the numbers seem enticing, unusually high or low percentages may be a sign of trouble

HIGH HOPES FOR EARNINGS

These companies' earnings are forecast to move smartly in 1996.

	PERCENT CHANGE 1995–96
WESTERN GAS RESOURCES	600%
MERISEL	556
RYLAND GROUP	500
FHP INTERNATIONAL	424
CROWN CENTRAL PETROLEUM	400
BURLINGTON RESOURCES	339
ROADWAY SERVICES	337
PENN TRAFFIC	337
FREEPORT-McMORAN	300
HUNT (J.B.) TRANSPORT	268

COMPANIES WITH THE HIGHEST YIELD

These companies pay the highest annual dividends as a percent of stock price.

	PERCENT
POLARIS INDUSTRIES	18.3%
NIAGARA MOHAWK POWER	11.3
LONG ISLAND LIGHTING	10.4
CENTERIOR ENERGY	8.3
NORTHEAST UTILITIES	7.4
PUBLIC SERVICE ENTERPRISE GROUP	7.3
PACIFIC TELESIS GROUP	7.3
MIDAMERICAN ENERGY	7.2
BROWN GROUP	7.1
PACIFIC GAS & ELECTRIC	7.1

THE LOWEST PRICE-EARNINGS RATIOS

Prices of these stocks compared with 199 earnings may suggest unrecognized values

	RATIO
CALDOR	1.5
STONE CONTAINER	3.6
COLLINS & AIKMAN	3.9
BRADLEES	4.0
JEFFERSON SMURFIT	4.4
BOWATER	4.7
WICKES LUMBER	4.8
CHAMPION INTERNATIONAL	5.2
WEIRTON STEEL	5.4
ZEIGLER COAL HOLDING	5.5

STOCKS THE INSTITUTIONS RARELY HOLD

Unpopular—or just overlooked? Either way, if the institutions suddenly take notice, prices could rise.

	PERCENT OF SHARES HELD BY INSTITUTIONS	NUMBER OF HOLDING
AMERCO	1%	10
MIDAMERICAN ENERGY	1	15
FREEPORT-McMORAN COPPER & GOLD	1	18
MICRON ELECTRONICS	2	29
VALHI	3	33
COOPER CAMERON	5	7
SPIEGEL	5	60
FOOD LION	5	91
LINCOLN ELECTRIC	6	13
COMPUCOM SYSTEMS	6	32
AVERAGE OF 900 COMPANIES	57	363

STOCKS SELLING WAY BELOW BOOK VALUE

Bargain-hunters, take note. The stock price of these companies as a percentage of book is very low.

	PERCENT
CALDOR	20%
BRADLEES	22
VENTURE STORES	27
WHX	34
BAKER (J.)	38
PAYLESS CASHWAYS	40
CHARMING SHOPPES	40
HECHINGER	42
AVIALL	53
CROWN CENTRAL PETROLEUM	54

DATA AS OF NOV. 30. I/B/E/S INTERNATIONAL INC., STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COS.

WHERE FORECASTERS DISAGREE THE MOST

Uncertainty could spell opportunity. The 1996 earnings-per-share estimates are all over the lot for these stocks. For example: Estimates for Time Warner range from a profit of $0.43 to a loss of $1.02.

	CONSENSUS FOR 1996 CENTS PER SHARE	VARIATION IN FORECASTS
TELE-COMMUNICATIONS	–2	850%
ZENITH ELECTRONICS	10	570
NATIONAL STEEL	66	255
CHARMING SHOPPES	4	225
HOST MARRIOTT	4	200
COMCAST	–11	191
MORRISON KNUDSEN	–8	138
TIME WARNER	–29	131
YELLOW	46	91
MAXTOR	43	88

1996

INVESTMENT OUTLOOK SCOREBOARD

ssary

lumber of the month in
n company's fiscal year ends.
K VALUE PER SHARE: Sum
mmon stock at nominal bal-
-sheet value, capital surplus,
etained earnings as shown
mpany accounts, divided by
ber of shares outstanding.
RATIO: Nov. 30 stock price
ed by the estimated 1995
ngs.
DEND RATE: Indicated annu-
yment rate based on the lat-
uarterly dividend plus any recurring extra or special yearend dividends.
YIELD: Indicated annual dividend as a percent of Nov. 30 stock price.
SHARES OUTSTANDING: Millions of common shares outstanding as of company's latest available financial report, excluding treasury shares.
MARKET VALUE: Percentage change in total market value of the company's most widely held common-stock issue since Jan. 1, 1995.
INSTITUTIONAL HOLDINGS: Percentage of outstanding common shares held by banks, insurance and investment companies, colleges, and pension funds, and the number of such institutions.
TURNOVER: Percentage of outstanding shares changing hands in 1995.
EARNINGS PER SHARE: Primary earnings per share—net income (including proceeds from certain convertible securities, warrants, and options that are common-stock equivalents, but excluding extraordinary profit or loss items) divided by the number of common and common-equivalent shares.
EARNINGS-PER-SHARE ESTIMATES: Analysts' consensus estimates for 1995 and 1996 compiled by I/B/E/S International Inc., New York, N.Y. I/B/E/S is a registered trademark of I/B/E/S International Inc. Trend estimate, based on pattern of past five years, compiled by Standard & Poor's Compustat.
VARIATION: The percentage by which two-thirds of the 1996 earnings estimates are above or below the average estimate. The lower this figure is, the more analysts agree on their estimates.

												EARNINGS PER SHARE				
														1996 ESTIMATES		
								INSTITUTIONAL HOLDINGS							FROM ANALYSTS	
MPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	%	NUMBER	1995 TURNOVER %	1994 ACTUAL	I/B/E/S 1995 ANALYST EST	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
L-INDUSTRY AVERAGE		**38**	**16**	**19**	**0.76**	**1.96**	**126.0**	**29**	**57**	**363**	**88.0**	**1.76**	**2.47**	**3.02**	**2.93**	**10.2**
AEROSPACE & DEFENSE																
DUSTRY AVERAGE		**58**	**22**	**18**	**1.10**	**2.06**	**98.8**	**43**	**70**	**426**	**71.1**	**2.73**	**3.64**	**3.24**	**4.08**	**3.9**
EING	12	73	29	33	1.00	1.37	343.1	56	59	1015	77.8	2.51	2.24	2.12	2.67	9.0
NCORP	11	12	1	10	0.60	5.11	32.6	1	66	150	59.5	–0.41	1.18	1.05	1.44	4.2
NERAL DYNAMICS	12	60	24	15	1.50	2.52	63.0	37	58	313	58.5	3.51	3.89	3.62	4.14	2.7
KHEED MARTIN	12	73	26	15	1.40	1.91	199.2	65	84	686	49.9	5.32	4.98	5.88	5.48	1.1
DONNELL DOUGLAS	12	89	36	15	0.80	0.90	112.0	81	57	507	50.2	5.05	6.15	6.98	6.92	2.0
RTHROP GRUMMAN	12	62	29	12	1.60	2.60	49.4	47	65	359	56.7	0.72	5.20	1.58	5.65	6.4
HR	07	15	10	31	0.00	0.00	18.1	41	64	98	167.3	0.26	0.47*	0.23	0.48	6.3
NDSTRAND	12	65	15	17	1.20	1.85	30.7	39	87	248	71.3	2.92	3.89	3.26	4.58	4.6
OKOL	06	34	23	12	0.68	2.01	18.2	20	86	183	58.6	3.02	2.78*	3.28	3.01	0.3
TED TECHNOLOGIES	12	94	32	17	2.20	2.35	122.0	48	77	700	61.6	4.40(b)	5.59	4.40	6.46	2.5
AUTOMOTIVE																
DUSTRY AVERAGE		**30**	**18**	**12**	**0.83**	**2.58**	**149.5**	**2**	**59**	**353**	**75.4**	**2.68**	**2.97**	**5.42**	**3.31**	**11.2**
CARS & TRUCKS																
OUP AVERAGE		**37**	**25**	**8**	**1.52**	**3.63**	**467.5**	**2**	**50**	**693**	**95.8**	**5.20**	**4.65**	**12.28**	**5.09**	**14.2**
RYSLER	12	52	28	10	2.00	3.86	382.6	14	58	810	150.7	9.10(b)	5.21	22.06	7.51	13.1
RD MOTOR	12	28	23	8	1.40	4.96	1091.0	8	44	1049	73.2	4.44(b)	3.33	5.62	4.03	11.7
NERAL MOTORS	12	49	30	7	1.20	2.47	749.9	14	58	1080	71.2	6.20	6.76	NA	7.63	12.6
VISTAR INTERNATIONAL	10	11	9	6	0.00	0.00	75.2	–26	45	237	115.2	0.99	1.73	NA	1.47	27.9
CCAR	12	44	34	7	3.00	6.86	38.9	–1	43	291	68.9	5.26	6.20	9.16	4.82	5.6
PARTS & EQUIPMENT																
OUP AVERAGE		**26**	**16**	**13**	**0.62**	**2.31**	**40.5**	**0**	**61**	**213**	**66.3**	**1.78**	**2.40**	**3.61**	**2.70**	**10.7**
VIN INDUSTRIES	12	18	18	20	0.76	4.31	22.3	–24	59	141	46.2	–0.78	0.87	1.12	1.50	21.3
RG-WARNER AUTOMOTIVE	12	30	25	9	0.60	2.03	22.0	12	89	120	57.3	2.75	3.16	NA	3.63	1.1
MMINS ENGINE	12	39	29	7	1.00	2.55	40.1	–16	81	348	97.7	6.11	5.76	10.70	5.03	8.7
NA	12	29	11	10	0.92	3.15	101.4	28	71	400	52.3	2.31	2.84	4.03	3.05	4.9
TROIT DIESEL	12	18	13	10	0.00	0.00	24.7	–15	24	63	41.8	1.52	1.88	2.75	1.73	8.7
TON	12	55	25	10	1.60	2.94	77.6	10	72	521	71.1	4.40	5.32	6.20	5.61	7.0
HLIN	08	37	15	14	0.82	2.25	59.6	22	78	443	83.8	2.06	2.60*	3.33	2.97	1.3
DERAL-MOGUL	12	19	15	16	0.48	2.51	35.0	–5	61	176	165.2	1.46(b)	1.23	2.66	1.65	6.1
AR SEATING	12	28	5	16	0.00	0.00	46.1	42	81	104	49.6	1.26	1.74	NA	2.50	3.2

OTNOTES: * Actual, not estimated data. NA = not available. NM = not meaningful. (a) Shares outstanding as of fiscal yearend. (b) Actual and estimated EPS figures are fully diluted. (c) Dividend rate excludes a nonrecurring extra or special yearend dividend. (d) Company pays a recurring stock dividend. Data compiled by Standard & Poor's Compustat, a division of The McGraw-Hill Companies, from such sources as statistical services, newspapers, registration statements, and company reports that SPC believes to be reliable but that are not guaranteed by either SPC or BUSINESS WEEK as to correctness or completeness. This material is not an offer to buy or sell any security. Additional data: I/B/E/S International Inc., Vickers Stock Research Corp.

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVIDEND RATE	YIELD %	SHRS OUT. MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE I/B/E/S 1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYSTS I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYSTS VARIATION %
MASCOTECH	12	11	7	12	0.16	1.47	56.1	–17	18	87	31.2	–4.20	0.93	NA	1.30	11
MODINE MFG.	03	31	11	13	0.60	1.94	29.6	8	37	142	60.7	2.24	2.39	2.88	2.76	[illegible]
SMITH (A.O.)	12	24	17	8	0.60	2.53	20.9	–3	56	142	47.1	2.75	2.93	3.20	3.44	3
SPX	12	16	12	20	0.40	2.48	14.2	–2	63	185	90.2	1.10	0.81	0.87	1.52	5
STANDARD PRODUCTS	06	16	16	13	0.68	4.22	16.7	–33	64	106	33.3	1.99	1.20*	1.97	1.08	63
(C) TIRE & RUBBER																
GROUP AVERAGE		**33**	**15**	**14**	**0.65**	**1.80**	**118.0**	**15**	**66**	**489**	**88.4**	**2.65**	**2.74**	**5.07**	**3.18**	**7.**
COOPER TIRE & RUBBER	12	24	9	17	0.30	1.23	83.7	3	61	348	82.2	1.54	1.40	1.78	1.76	10
GOODYEAR TIRE & RUBBER	12	42	21	10	1.00	2.36	152.4	27	71	629	94.6	3.75	4.08	8.36	4.59	3.
3 BANKS																
INDUSTRY AVERAGE		**54**	**29**	**12**	**1.66**	**3.21**	**136.2**	**61**	**52**	**414**	**69.3**	**4.03**	**4.56**	**6.61**	**5.16**	**3.**
(A) BANKS - EAST																
GROUP AVERAGE		**54**	**31**	**13**	**1.76**	**3.29**	**140.1**	**62**	**57**	**470**	**100.4**	**4.26**	**4.42**	**8.00**	**5.21**	**4.**
BANK OF BOSTON	12	46	28	11	1.48	3.19	112.2	89	65	528	140.3	3.67(b)	4.37	5.89	4.80	3.
BANK OF NEW YORK	12	47	25	11	1.44	3.06	197.4	71	68	592	83.4	3.70(b)	4.33	5.62	4.87	[illegible]
BANKERS TRUST NEW YORK	12	65	53	27	4.00	6.17	78.6	18	67	460	151.5	7.17	2.39	3.89	6.98	10.
CHASE MANHATTAN	12	61	41	11	1.80	2.96	174.5	74	67	568	153.9	5.87	5.40	5.94	6.69	8.
CHEMICAL BANKING	12	60	42	9	2.00	3.33	249.2	70	74	700	103.0	4.64	6.34	12.23	7.08	3.
CITICORP	12	71	36	11	1.20	1.70	454.0	97	67	1031	107.0	6.40(b)	6.38	14.12	7.21	4
CORESTATES FINANCIAL	12	39	16	11	1.36	3.51	139.2	43	57	451	54.0	1.75	3.56	3.78	4.17	4.
FIRST FIDELITY BANCORPORATION	12	73	35	13	2.00	2.73	78.7	59	34	337	64.8	5.11(b)	5.47	6.47	5.85	2
FLEET FINANCIAL GROUP	12	42	27	10	1.72	4.12	141.7	35	71	487	113.5	3.75	4.02	8.14	4.44	3
INTEGRA FINANCIAL	12	62	33	13	2.00	3.23	32.9	51	46	152	53.8	5.01	4.90	8.61	5.24	2.
MELLON BANK	12	54	26	12	2.20	4.08	141.3	69	63	578	82.4	2.42	4.49	4.28	5.08	2.
MERIDIAN BANCORP	12	46	21	14	1.48	3.21	57.8	73	37	156	100.1	2.80	3.23	4.03	3.72	7.
MIDLANTIC	12	60	28	15	1.28	2.13	52.4	126	39	246	254.9	5.11(b)	4.05	32.37	4.33	4.
MORGAN (J. P.)	12	79	51	13	3.00	3.82	187.7	40	63	919	65.6	6.02	6.25	7.90	7.01	7.
PNC BANK	12	29	20	12	1.40	4.79	228.6	36	51	469	80.0	2.56(b)	2.39	5.09	2.85	3.
REPUBLIC NEW YORK	12	63	41	11	1.44	2.29	56.1	49	46	214	68.3	5.61(b)	5.98	6.79	6.92	3.
STATE STREET BOSTON	12	45	19	15	0.68	1.51	82.5	70	73	369	64.5	2.70	2.95	3.41	3.31	1
UJB FINANCIAL	12	34	21	11	1.16	3.46	57.6	45	39	194	66.5	2.38	2.99	5.42	3.28	2
(B) BANKS - MIDWEST																
GROUP AVERAGE		**42**	**21**	**12**	**1.31**	**3.26**	**149.7**	**55**	**46**	**357**	**44.2**	**3.05**	**3.41**	**3.95**	**3.80**	**2.**
BANC ONE	12	38	20	12	1.36	3.56	391.2	49	49	674	42.9	2.42	3.20	3.43	3.55	2
BOATMEN'S BANCSHARES	12	39	22	11	1.48	3.82	129.1	77	44	415	66.7	3.40	3.42	4.17	3.70	1.
COMERICA	12	37	22	11	1.40	3.75	115.1	51	56	352	47.4	3.28	3.52	3.62	3.82	2.
FIFTH THIRD BANCORP	12	73	25	17	1.40	1.91	66.9	58	35	205	40.2	3.80	4.32	5.11	4.87	1
FIRST BANK SYSTEM	12	52	20	13	1.45	2.81	129.4	50	53	379	60.2	2.20(b)	4.08	3.68	4.61	1
FIRST CHICAGO NBD	12	38	23	10	1.32	3.44	157.1	41	45	409	38.0	3.45	3.67	3.89	4.17	3
FIRST OF AMERICA BANK	12	45	28	12	1.76	3.92	63.3	51	36	208	28.1	3.69	3.74	4.01	4.23	2
FIRSTAR	12	41	20	13	1.36	3.32	76.5	77	41	192	32.7	3.22	3.19	3.85	3.79	2.
HUNTINGTON BANCSHARES	12	24	11	14	0.80	3.28	141.4	53	18	141	29.3	1.78	1.77	2.45	1.97	4.
KEYCORP	12	37	20	11	1.44	3.91	229.0	41	44	526	50.0	3.45	3.41	4.60	3.75	2.
MERCANTILE BANCORPORATION	12	46	25	11	1.32	2.89	55.3	87	38	226	37.6	3.74	4.00	4.58	4.34	1
NATIONAL CITY	12	32	18	11	1.32	4.08	147.4	25	58	409	30.9	2.70	2.94	3.22	3.15	1
NORTHERN TRUST	12	52	22	14	1.04	1.99	55.5	53	67	241	73.5	3.17	3.70	4.11	4.15	1
NORWEST	12	33	14	12	0.96	2.91	337.9	54	55	625	41.2	2.45	2.75	4.64	3.12	1.
(C) BANKS - SOUTH & SOUTHEAST																
GROUP AVERAGE		**49**	**28**	**12**	**1.57**	**3.23**	**115.4**	**64**	**45**	**366**	**43.5**	**3.80**	**4.24**	**5.58**	**4.69**	**2.1**
AMSOUTH BANCORPORATION	12	40	23	13	1.52	3.85	58.4	54	39	155	53.4	2.25	2.95	3.01	3.25	2.5
BARNETT BANKS	12	60	33	12	1.88	3.13	94.6	53	53	481	57.9	4.66(b)	5.11	8.42	5.62	2.0
CRESTAR FINANCIAL	12	61	33	12	1.80	2.95	37.7	64	46	253	52.6	4.47	4.95	7.12	5.40	1.7
FIRST UNION	12	55	34	10	2.08	3.81	167.8	26	59	570	59.4	5.22	5.53	7.25	6.15	2.1
NATIONSBANK	12	72	43	10	2.32	3.24	275.6	58	59	819	61.7	6.06(b)	7.08	10.07	7.91	2.3
REGIONS FINANCIAL	12	42	24	11	1.32	3.14	46.1	39	30	173	46.9	3.40	3.70	4.40	4.00	2.5
SOUTHERN NATIONAL	12	26	15	11	0.92	3.50	102.7	219	19	161	20.5	2.27(b)	2.33	3.13	2.75	3.3
SOUTHTRUST	12	25	16	11	0.80	3.15	87.6	52	37	191	36.5	2.15	2.36	2.85	2.60	1.9
SUNTRUST BANKS	12	68	36	14	1.60	2.34	113.6	40	51	392	21.7	4.37	4.91	5.49	5.40	1.5
WACHOVIA	12	45	21	13	1.44	3.20	170.3	39	55	465	24.9	3.13	3.45	4.08	3.77	1.3
(D) BANKS - WEST & SOUTHWEST																
GROUP AVERAGE		**99**	**43**	**11**	**2.43**	**2.70**	**125.6**	**69**	**66**	**469**	**79.1**	**6.40**	**8.99**	**11.11**	**9.71**	**4.3**
BANKAMERICA	12	64	47	10	1.84	2.89	370.0	61	61	908	79.7	5.33(b)	6.32	6.46	7.02	3.8
FIRST INTERSTATE BANCORP	12	135	48	12	3.20	2.38	75.7	103	69	545	114.1	8.71	11.10	10.36	11.46	3.3
U.S. BANCORP	12	34	18	12	1.12	3.31	98.3	50	55	321	97.2	1.40	2.75	2.20	2.98	3.7
UNION BANK	12	52	33	10	1.40	2.72	36.5	96	85	76	32.5	1.80	5.31	2.85	5.60	6.6
WELLS FARGO	12	210	71	11	4.60	2.19	47.5	34	62	493	72.1	14.78	19.47	33.67	21.50	4.0

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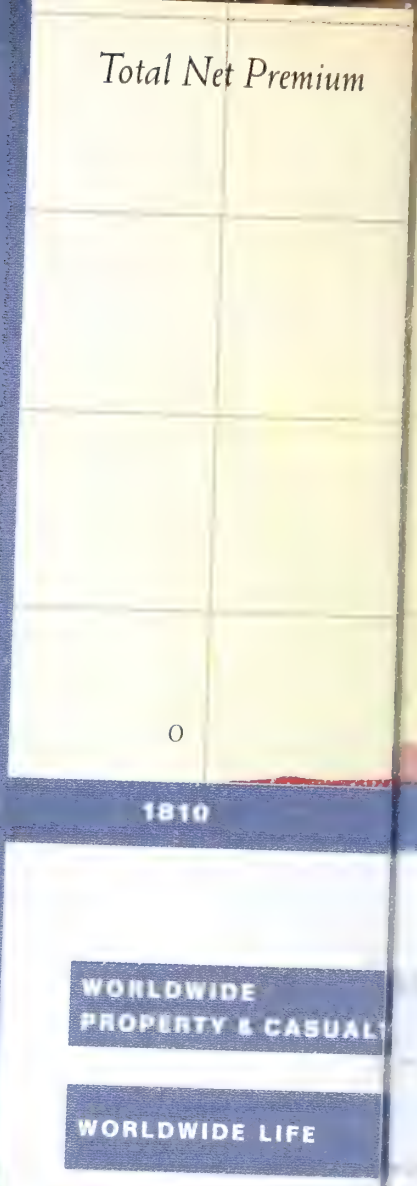

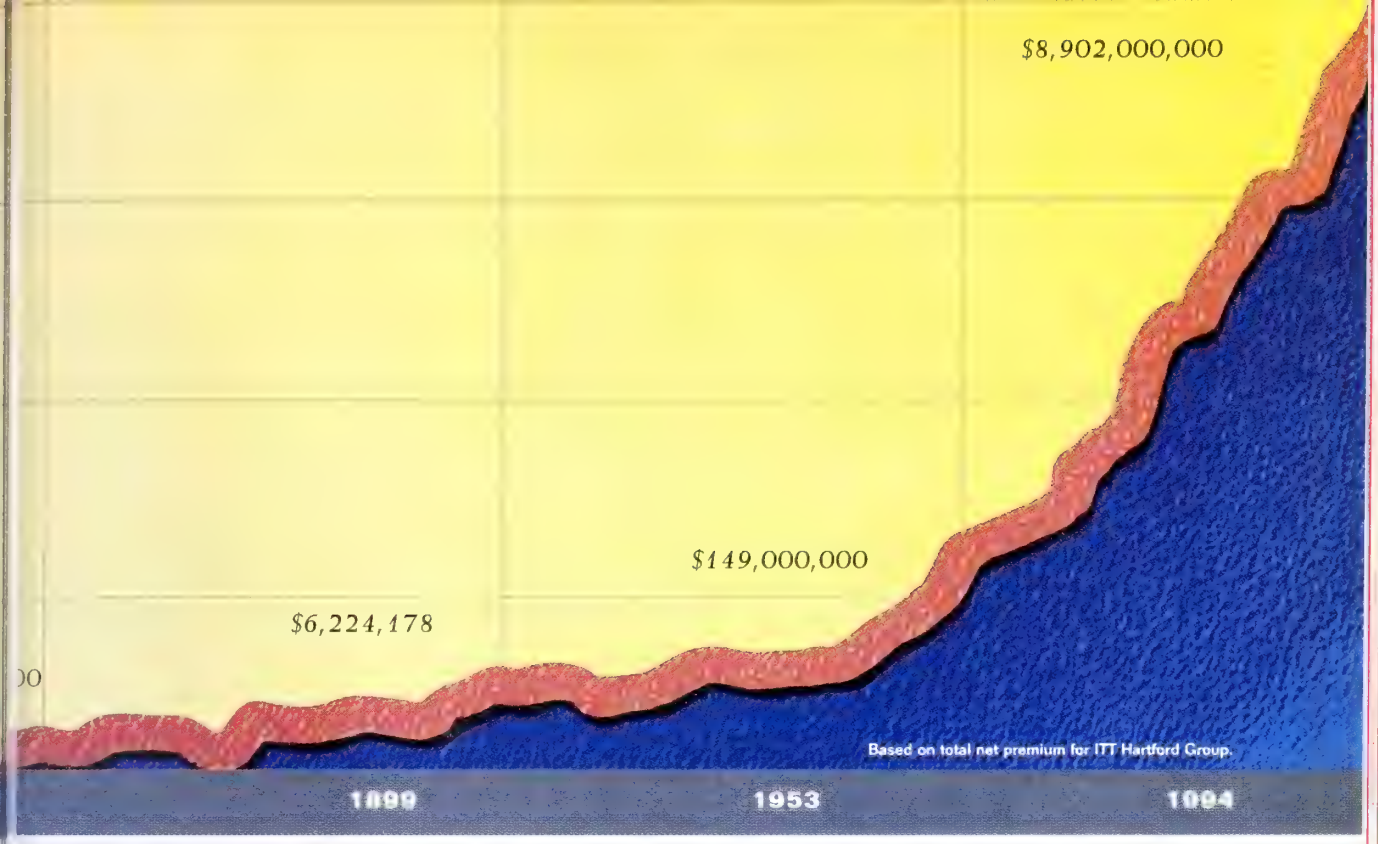

the insurance business, it's not easy to show a history of steady growth.

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r instance, by developing alternative ways to service our customers, we

ue to open up new avenues for growth. We take what we learn in one

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highest renewal rates in the industry.

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Prepared for
Tomorrow.

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS.	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
4 CHEMICALS																
INDUSTRY AVERAGE		**41**	**14**	**14**	**0.90**	**2.06**	**84.8**	**22**	**61**	**342**	**75.0**	**1.38**	**3.26**	**2.61**	**3.45**	**7**
AIR PRODUCTS & CHEMICALS	09	56	19	17	1.04	1.87	121.8	25	74	626	47.3	2.06	3.29*	2.70	3.60	1
ALBEMARLE	12	18	9	19	0.22	1.20	66.1	32	46	177	50.9	0.80	0.98	1.06	1.29	10
ARCADIAN	12	21	13	7	0.05	0.24	14.9	NA	7	13	NA	1.65	3.03	NA	3.26	0
ARCO CHEMICAL	12	48	20	9	2.80	5.88	96.4	8	8	139	8.1	2.80	5.22	3.92	5.01	12
CABOT	09	47	18	12	0.72(c)	1.54	37.9	65	62	250	65.0	1.84(b)	4.04*	3.86	4.31	1
CBI INDUSTRIES	12	34	18	29	0.48	1.43	38.2	31	74	167	95.9	1.20	1.16	1.10	1.43	8
CYTEC INDUSTRIES	12	64	10	16	0.00	0.00	13.2	65	46	157	84.4	2.51(b)	4.10	NA	5.06	8
DEXTER	12	24	15	14	0.88	3.61	24.5	13	77	148	41.2	1.56	1.73	1.56	1.93	2
DOW CHEMICAL	12	71	30	8	3.00	4.23	261.8	0	58	1041	78.3	3.37	8.46	4.51	8.38	16
DUPONT	12	67	14	12	2.08	3.13	555.3	–3	59	1223	56.6	4.00	5.58	3.53	6.35	4
EASTMAN CHEMICAL	12	66	18	10	1.68	2.56	80.3	26	66	596	78.0	4.05	6.76	NA	6.86	9
ENGELHARD	12	23	5	24	0.36	1.54	144.1	60	46	355	114.3	0.82	0.98	0.68	1.15	3
ETHYL	12	13	3	18	0.50	4.00	118.4	30	49	226	39.5	0.83	0.71	0.53	0.94	6
FERRO	12	22	12	13	0.54	2.43	27.9	–7	68	160	48.4	1.45(b)	1.65	3.49	1.98	5
FULLER (H. B.)	11	32	21	14	0.64	2.00	14.0	–6	51	134	65.4	2.20	2.29	2.37	2.65	8
GEON	12	25	9	9	0.50	2.02	25.0	–14	93	141	112.2	2.06	2.71	NA	2.79	24
GEORGIA GULF	12	36	1	7	0.32	0.90	37.8	–17	59	181	149.3	2.88	4.87	3.05	4.77	11
GOODRICH (B. F.)	12	70	33	19	2.20	3.14	26.1	64	83	296	83.9	2.24	3.70	1.46	4.22	6
GRACE (W. R.)	12	61	17	17	0.50	0.82	96.5	61	79	478	153.2	0.88	3.62	1.62	4.47	6
GREAT LAKES CHEMICAL	12	71	21	16	0.46	0.65	64.7	20	78	496	49.6	4.00	4.51	5.75	5.09	1
HANNA (M. A.)	12	27	14	16	0.58	2.16	35.5	13	67	174	46.4	1.20	1.64	1.33	1.86	2
HERCULES	12	55	11	20	0.84	1.53	111.8	37	78	466	60.1	2.29	2.68	3.93	3.20	5
IMC GLOBAL	06	39	13	18	0.20	0.52	59.1	77	91	256	154.4	–0.07	2.15*	2.37	2.92	12
INTERNATIONAL FLAVORS & FRAGRANCES	12	51	10	22	1.24	2.43	111.2	10	53	540	37.2	2.03	2.31	2.50	2.59	1
LUBRIZOL	12	29	14	13	0.96	3.34	63.6	–17	74	361	85.4	2.67	2.25	2.00	2.42	5
LYONDELL PETROCHEMICAL	12	25	5	5	0.90	3.67	80.0	–5	50	229	74.4	2.78	5.28	1.13	4.24	24
MONSANTO	12	115	31	18	2.76	2.40	113.3	66	65	777	69.7	5.32	6.24	6.52	7.17	3
MORTON INTERNATIONAL	06	35	11	18	0.52	1.50	148.3	22	65	561	73.1	1.51	1.96*	1.87	2.24	2
NALCO CHEMICAL	12	31	8	15	1.00	3.27	67.5	–9	74	367	41.0	1.19(b)	2.01	1.70	2.24	4
NL INDUSTRIES	12	12	–5	9	0.00	0.00	51.1	–3	15	79	22.6	–0.47	1.33	NA	2.16	8
OLIN	12	76	31	13	2.40	3.16	24.3	67	64	256	124.7	3.65	5.64	4.66	6.40	6
PRAXAIR	12	29	8	16	0.32	1.10	138.2	42	70	497	72.4	1.45	1.81	2.72	2.03	2
ROHM & HAAS	12	60	24	14	1.64	2.72	67.5	5	73	361	49.3	3.79	4.28	3.68	5.00	6
TERRA INDUSTRIES	12	14	7	7	0.12	0.88	81.1	32	35	142	70.5	0.77	1.94	2.44	1.93	9
UNION CARBIDE	12	40	14	8	0.75	1.89	135.9	27	68	523	126.8	2.27(b)	5.20	3.22	4.69	22
UNIROYAL CHEMICAL	09	8	–13	2	0.00	0.00	24.2	NA	41	44	NA	–25.00	5.32*	NA	1.22	12
WELLMAN	12	26	19	10	0.28	1.09	33.3	–10	92	237	99.6	1.94	2.67	2.21	2.94	5
WITCO	12	31	19	20	1.12	3.66	56.2	24	77	253	48.6	1.92	1.54	1.23	2.20	9
5 CONGLOMERATES																
INDUSTRY AVERAGE		**42**	**16**	**16**	**0.76**	**1.84**	**183.9**	**25**	**53**	**461**	**50.2**	**2.16**	**2.85**	**3.16**	**3.26**	**4**
ALCO STANDARD	09	44	12	24	0.56	1.29	111.2	42	31	466	63.1	0.55	1.81*	1.12	2.30	4
ALLIEDSIGNAL	12	47	12	15	0.78	1.65	282.9	39	72	698	44.3	2.68	3.11	3.43	3.57	0
ANIXTER INTERNATIONAL	12	18	9	23	0.00	0.00	56.0	–2	58	115	44.0	0.72	0.77	NA	1.08	0
DIAL	12	27	6	16	0.64	2.37	93.6	28	55	384	73.7	1.61	1.67	2.04	1.96	3
FOXMEYER HEALTH	03	26	17	14	0.00	0.00	16.4	69	51	88	64.3	1.52	1.80	NA	2.02	1
GENERAL ELECTRIC	12	67	17	17	1.64	2.44	1670.3	29	52	1765	28.0	3.46	3.90	3.98	4.34	1
HARCOURT GENERAL	10	40	12	18	0.68	1.69	72.8	7	55	372	42.9	1.22	2.28	1.95	2.57	3
ITT	12	123	68	13	0.00	0.00	116.5	53	61	713	72.8	6.66(b)	9.33	8.28	10.31	3
OGDEN	12	21	12	14	1.25	5.88	48.9	14	59	302	47.0	1.55	1.50	1.59	1.53	1
PALL	07	27	6	26	0.42	1.55	114.4	44	68	409	52.0	0.86	1.04*	1.07	1.21	2
PREMARK INTERNATIONAL	12	51	16	13	1.08	2.12	61.2	9	75	489	95.5	3.39	3.99	4.80	4.39	2
ROCKWELL INTERNATIONAL	09	49	17	15	1.16	2.37	217.1	37	37	597	35.9	2.82(b)	3.36*	3.17	3.77	1
TELEDYNE	12	24	7	13	0.40	1.65	55.8	21	47	260	54.3	–0.15	1.93	1.82	2.19	11
TENNECO	12	48	16	12	1.60	3.33	178.3	7	69	673	52.5	3.49	3.99	3.25	4.52	3
TEXTRON	12	77	38	14	1.56	2.04	84.8	51	65	521	43.8	4.80	5.47	5.96	6.08	1
TRIARC	12	11	2	NM	0.00	0.00	29.9	12	15	54	40.9	–0.34	–0.20	NA	0.49	28
TRW	12	75	32	11	2.20	2.94	66.1	16	59	480	56.4	5.05	6.64	6.40	7.20	3
VALHI	12	6	2	11	0.12	2.00	113.8	–22	3	33	2.3	0.17	0.56	0.30	0.91	6
WHITMAN	12	22	6	17	0.38	1.73	105.0	28	72	339	39.4	1.00	1.28	1.38	1.46	1
6 CONSUMER PRODUCTS																
INDUSTRY AVERAGE		**36**	**13**	**19**	**0.82**	**2.05**	**155.4**	**12**	**57**	**419**	**76.6**	**1.87**	**2.07**	**2.56**	**2.53**	**17**
(A) APPAREL																
GROUP AVERAGE		**27**	**12**	**16**	**0.48**	**1.96**	**57.1**	**–3**	**67**	**284**	**88.6**	**1.13**	**1.88**	**2.18**	**2.30**	**6**
BROWN GROUP	01	14	13	25	1.00	7.14	17.9	56	67	198	84.3	1.91	0.56	0.66	1.23	13
FRUIT OF THE LOOM	12	19	16	16	0.00	0.00	75.9	–28	72	263	109.8	0.79	1.19	1.23	1.81	8
KELLWOOD	04	19	15	10	0.60	3.10	21.1	–8	83	152	56.5	0.52(b)	1.85	1.43	2.10	6
LIZ CLAIBORNE	12	29	13	19	0.45	1.53	75.2	69	86	357	114.1	1.06	1.54	1.08	1.78	5
NIKE	05	58	15	17	0.50	0.86	143.0	54	51	480	89.4	2.72	3.46	3.39	3.94	2
PHILLIPS-VAN HEUSEN	01	10	10	15	0.15	1.45	26.7	–32	65	133	101.0	1.11	0.70	0.96	0.83	15
REEBOK INTERNATIONAL	12	26	13	10	0.30	1.15	76.5	–37	76	430	125.5	3.02	2.73	3.28	3.09	5

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS. OUT MILS.	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
RUSSELL	12	27	16	20	0.48	1.80	39.0	–17	47	239	35.4	1.96	1.35	1.49	1.93	5
VF	12	52	28	13	1.36	2.62	63.7	6	82	473	48.4	4.20	3.98	6.07	4.47	2
WESTPOINT STEVENS	12	18	–16	12	0.00	0.00	32.3	20	43	112	121.5	–6.02	1.48	NA	1.78	2
(B) APPLIANCES & HOME FURNISHINGS																
GROUP AVERAGE		**27**	**12**	**17**	**0.49**	**1.43**	**60.9**	**4**	**57**	**267**	**105.0**	**1.57**	**1.74**	**2.33**	**2.16**	**44**
ARMSTRONG WORLD INDUSTRIES	12	60	20	13	1.44	2.41	36.9	54	84	410	94.9	4.64(b)	4.53	4.34	5.16	4
BEST BUY	02	21	9	13	0.00	0.00	42.7	–34	52	178	335.7	1.33	1.60	3.08	1.99	9
CIRCUIT CITY STORES	02	29	10	15	0.12	0.41	97.2	31	77	507	139.8	1.72	2.00	2.71	2.37	3
HEILIG-MEYERS	02	20	11	18	0.28	1.38	48.6	–18	79	249	132.9	1.34	1.13	1.60	1.39	8
INTERCO	12	8	6	15	0.00	0.00	50.1	24	97	71	24.3	0.54	0.56	0.22	0.77	15
KIMBALL INTERNATIONAL	06	26	18	13	0.92	3.56	21.0	–1	23	79	13.0	1.71	1.97*	1.74	2.17	2
LA-Z-BOY CHAIR	04	32	18	15	0.76	2.38	18.5	3	24	82	13.2	2.01	2.15	2.47	2.39	2
LEGGETT & PLATT	12	24	9	15	0.40	1.66	84.0	39	56	282	46.4	1.39	1.59	2.30	1.78	2
LEVITZ FURNITURE	03	3	–2	45	0.00	0.00	29.6	–62	21	44	196.0	0.13	0.07	NA	0.00	N
MASCO	12	30	15	17	0.76	2.58	160.3	33	62	482	57.6	1.22	1.74	2.15	2.08	5
MAYTAG	12	20	6	15	0.56	2.75	107.6	36	57	378	81.5	1.42	1.36	1.25	1.52	3
SUNBEAM	12	16	7	18	0.04	0.25	81.2	–37	49	234	104.0	1.30	0.88	1.29	1.18	14
TANDY	12	48	25	13	0.72	1.51	64.5	6	63	453	120.5	2.91	3.61	3.01	4.29	2
TORO	07	32	15	11	0.48	1.52	12.0	4	64	134	71.6	1.71	2.81*	2.35	3.00	6
WHIRLPOOL	12	56	26	16	1.36	2.45	74.0	11	74	513	87.5	2.10	3.45	4.14	4.42	7
ZENITH ELECTRONICS	12	8	4	NM	0.00	0.00	46.9	–32	36	169	160.4	–0.34	–1.55	NA	0.10	570
(C) BEVERAGES																
GROUP AVERAGE		**47**	**11**	**25**	**0.84**	**1.77**	**423.4**	**39**	**47**	**663**	**34.8**	**2.05**	**2.15**	**2.63**	**2.46**	**4**
ANHEUSER-BUSCH	12	66	19	17	1.76	2.66	254.3	29	59	768	41.2	3.91	3.99	3.78	4.48	1
BROWN-FORMAN	04	38	8	16	1.04	2.73	69.0	25	35	257	10.2	2.15	2.39	2.49	2.63	2
COCA-COLA	12	76	4	32	0.88	1.16	1262.1	45	53	1228	28.0	1.98	2.36	2.78	2.80	1
COCA-COLA ENTERPRISES	12	29	11	43	0.05	0.17	129.8	62	42	175	25.0	0.52	0.67	NA	0.84	4
COORS (ADOLPH)	12	20	18	20	0.50	2.47	38.4	21	36	218	51.9	1.52	1.03	1.31	1.17	14
PEPSICO	12	55	10	23	0.80	1.44	786.6	52	60	1330	52.4	2.22	2.45	2.82	2.81	1
(D) PERSONAL CARE																
GROUP AVERAGE		**56**	**12**	**21**	**1.19**	**1.91**	**187.3**	**22**	**52**	**574**	**48.5**	**2.55**	**2.72**	**2.91**	**3.17**	**3**
ALBERTO-CULVER	09	32	13	17	0.32	0.99	27.7	18	18	192	18.3	1.57	1.89*	1.93	2.13	3
AVON PRODUCTS	12	73	3	18	2.20	3.03	68.1	20	83	487	95.4	3.75	4.14	4.34	4.69	2
CLOROX	06	76	18	20	2.12	2.80	52.4	27	52	467	51.7	3.35	3.78*	4.31	4.20	0
COLGATE-PALMOLIVE	12	73	11	20	1.88	2.57	145.6	17	62	819	84.3	3.82	3.58	5.11	4.30	1
ECOLAB	12	29	7	19	0.50	1.74	64.6	32	47	264	22.2	1.25	1.51	1.56	1.71	1
GILLETTE	12	52	5	28	0.60	1.16	443.8	39	68	1012	43.8	1.57	1.85	2.01	2.14	0
HELENE CURTIS INDUSTRIES	02	29	23	23	0.32	1.11	9.9	–13	37	85	42.8	2.02	1.26	1.96	1.90	17
PROCTER & GAMBLE	06	87	16	23	1.60	1.85	686.6	40	48	1267	29.6	3.09	3.71*	2.02	4.29	0
(E) TOBACCO																
GROUP AVERAGE		**39**	**16**	**18**	**1.72**	**4.30**	**260.3**	**19**	**58**	**602**	**57.0**	**2.97**	**2.31**	**3.29**	**3.09**	**3**
AMERICAN BRANDS	12	42	22	15	2.00	4.76	181.5	1	57	659	55.6	4.38	2.81	3.48	3.11	1
DIMON	06	17	6	NM	0.54	3.13	38.1	NA	36	106	NA	NA	–0.65*	NA	1.15	7
PHILIP MORRIS	12	88	17	14	4.00(c)	4.56	841.3	51	61	1616	53.7	5.45	6.49	6.58	7.59	1
RJR NABISCO HOLDINGS	12	29	37	13	1.50	5.15	272.7	6	70	476	94.6	2.05	2.30	2.77	2.58	2
UNIVERSAL	06	24	11	33	1.00	4.21	35.0	20	69	165	27.0	1.09	0.73*	1.01	1.62	4
UST	12	33	2	15	1.30	4.00	193.3	15	56	587	53.9	1.87	2.15	2.59	2.46	2
7 CONTAINERS & PACKAGING																
INDUSTRY AVERAGE		**30**	**14**	**12**	**0.61**	**1.65**	**75.6**	**13**	**58**	**286**	**85.4**	**1.04**	**3.04**	**2.09**	**3.48**	**12**
(A) GLASS, METAL & PLASTIC																
GROUP AVERAGE		**28**	**14**	**16**	**0.20**	**0.70**	**80.0**	**7**	**61**	**303**	**81.9**	**1.49**	**1.73**	**2.09**	**2.26**	**9**
BALL	12	29	21	13	0.60	2.10	30.0	–9	69	324	104.0	2.35	2.20	2.33	2.75	12
CROWN CORK & SEAL	12	42	16	26	0.00	0.00	90.4	12	64	463	117.8	1.47	1.62	1.85	2.44	11
OWENS-ILLINOIS	12	13	4	9	0.00	0.00	119.6	19	50	122	24.0	0.64	1.38	NA	1.58	4
(B) PAPER																
GROUP AVERAGE		**30**	**14**	**10**	**0.77**	**2.01**	**73.9**	**14**	**57**	**280**	**86.7**	**0.87**	**3.52**	**2.10**	**3.93**	**14**
BEMIS	12	26	9	16	0.64	2.45	51.5	9	49	304	33.5	1.40	1.60	1.56	1.82	3
FEDERAL PAPER BOARD	12	52	19	11	1.60	3.08	47.2	99	82	351	132.6	1.52(b)	4.93	3.12	5.97	6
JEFFERSON SMURFIT	12	11	–5	5	0.00	0.00	111.0	–34	55	82	50.2	0.12	2.34	NA	2.49	21
RIVERWOOD INTERNATIONAL	12	18	8	17	0.16	0.87	65.7	18	18	56	15.1	0.16	1.07	0.48	1.75	27
SONOCO PRODUCTS	12	25	8	15	0.60	2.40	91.2	20	33	242	27.0	1.32(b)	1.66	2.07	1.88	4
STONE CONTAINER	12	16	10	4	0.15	0.96	98.7	–2	71	338	266.1	–1.60	4.26	NA	4.41	23
TEMPLE-INLAND	12	45	35	9	1.20	2.64	56.1	1	76	381	85.5	2.35	5.32	2.79	5.99	12
UNION CAMP	12	49	30	7	1.80	3.66	70.2	5	73	482	84.0	1.67	7.01	2.55	7.16	13
8 DISCOUNT & FASHION RETAILING																
INDUSTRY AVERAGE		**22**	**12**	**22**	**0.26**	**1.00**	**136.1**	**–2**	**60**	**302**	**114.9**	**1.43**	**1.19**	**1.94**	**1.61**	**12**
AUTOZONE	08	29	4	31	0.00	0.00	146.4	21	43	244	49.0	0.78	0.93*	1.40	1.17	1
BAKER (J.)	01	6	16	12	0.06	0.94	13.9	–57	96	118	191.2	1.46(b)	0.54	1.01	1.06	18
BARNES & NOBLE	01	37	12	33	0.00	0.00	30.4	19	55	194	110.1	0.81	1.13	NA	1.52	2
BEST PRODUCTS	01	6	11	11	0.00	0.00	31.6	–4	71	46	130.3	NA	0.55	NA	0.97	5

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE 1996 ESTIMATES I/B/E/S 1995 ANALYST EST	EARNINGS PER SHARE 1996 ESTIMATES BASED ON 5-YR TREND	EARNINGS PER SHARE 1996 ESTIMATES FROM ANALYSTS I/B/E/S CONSENSUS	EARNINGS PER SHARE 1996 ESTIMATES FROM ANALYSTS VARIATION %
BORDERS GROUP	01	18	16	22	0.00	0.00	28.8	NA	87	150	NA	0.48	0.82	NA	1.05	3
BRADLEES	01	2	9	NM	0.00	0.00	11.4	–86	46	47	319.6	0.51	–1.36	NA	0.50	N
BURLINGTON COAT FACTORY	06	12	9	31	0.00	0.00	40.7	–3	31	103	40.8	1.12	0.37*	0.68	0.89	23
CALDOR	01	4	20	2	0.00	0.00	16.7	–81	86	141	410.5	2.65	1.95	5.16	2.60	N
CARSON PIRIE SCOTT	01	20	16	10	0.00	0.00	16.4	–14	81	83	62.5	2.48	2.00	NA	2.22	5
CHARMING SHOPPES	01	2	5	NM	0.00	0.00	103.0	–65	59	244	172.2	0.42	–0.42	NA	0.04	225
CONSOLIDATED STORES	01	25	7	18	0.00	0.00	47.6	35	97	215	90.5	1.15	1.39	3.06	1.66	1
DAYTON HUDSON	01	73	42	15	1.76	2.42	71.8	3	80	629	106.2	5.77	4.71	5.18	5.76	5
DILLARD DEPARTMENT STORES	01	29	21	12	0.12	0.42	113.0	8	75	437	81.9	2.23	2.34	2.56	2.63	2
DOLLAR GENERAL	01	27	6	21	0.20	0.74	57.5	–2	76	248	124.5	1.06	1.29	2.00	1.62	3
FAMILY DOLLAR STORES	08	15	7	15	0.40	2.60	56.7	23	51	135	65.6	1.10	1.03*	1.44	1.17	3
FEDERATED DEPARTMENT STORES	01	29	19	18	0.00	0.00	182.6	NA	93	461	132.7	1.41	1.63	1.77	2.08	5
FINGERHUT	12	13	11	11	0.16	1.27	45.9	–18	80	184	126.5	0.91	1.19	1.21	1.42	9
GAP	01	45	10	20	0.48	1.06	144.2	47	42	478	94.7	2.20	2.31	2.82	2.72	2
HECHINGER	01	5	12	32	0.16	3.56	42.3	61	45	117	164.7	–0.24	0.14	0.14	0.41	34
HOME DEPOT	01	44	10	29	0.20	0.45	476.2	2	58	1037	87.8	1.32	1.54	2.10	1.95	3
HOME SHOPPING NETWORK	12	10	2	NM	0.00	0.00	90.7	–7	38	158	91.2	0.19	–0.28	NA	0.25	24
KMART	01	8	12	129	0.48	6.19	459.4	–40	62	602	138.6	0.55	0.06	0.08	0.71	33
KOHL'S	01	54	10	25	0.00	0.00	36.8	36	78	244	95.1	1.87	2.19	3.56	2.69	2
LANDS' END	01	15	5	16	0.00	0.00	33.8	4	24	121	45.2	1.03	0.95	1.46	1.16	8
LIMITED	01	18	8	16	0.40	2.25	358.1	–2	55	583	80.2	1.25	1.13	1.19	1.31	10
LOWE'S	01	32	10	22	0.20	0.64	160.5	–9	57	496	112.8	1.39(b)	1.41	2.66	1.78	4
MAY DEPARTMENT STORES	01	44	17	14	1.14	2.61	249.4	30	72	826	53.6	2.92(b)	3.07	3.54	3.45	2
MELVILLE	12	31	22	17	1.52	4.88	104.9	0	87	470	66.3	2.75	1.88	1.87	2.67	12
MERCANTILE STORES	01	47	38	16	1.06	2.28	36.8	18	46	315	52.1	2.84	2.91	2.53	3.38	3
MEYER (FRED)	01	23	21	20	0.00	0.00	26.7	–24	47	132	99.9	0.25	1.17	0.65	1.92	10
MICHAELS STORES	01	17	15	13	0.00	0.00	21.4	–52	86	185	478.1	1.77	1.29	2.15	1.70	5
NEIMAN MARCUS GROUP	07	21	1	21	0.00	0.00	38.0	54	34	56	27.7	–0.35	1.01*	NA	1.13	4
NORDSTROM	01	39	17	18	0.50	1.27	82.2	–7	52	415	177.5	2.47	2.24	2.59	2.67	7
OFFICE DEPOT	12	25	6	28	0.00	0.00	155.2	8	73	417	94.5	0.69	0.88	1.48	1.18	2
OFFICEMAX	01	23	11	33	0.00	0.00	82.3	39	69	250	117.1	0.40	0.69	NA	0.91	1
PAYLESS CASHWAYS	11	4	10	21	0.00	0.00	39.9	–54	66	79	55.7	1.17	0.20	NA	0.40	17
PENNEY (J.C.)	01	47	24	13	1.92	4.07	225.8	3	76	810	64.6	4.29	3.72	5.54	4.18	3
PEP BOYS–MANNY, MOE & JACK	01	26	10	19	0.19	0.72	59.8	–15	58	360	126.4	1.32	1.36	1.69	1.65	3
PRICE/COSTCO	08	17	7	16	0.00	0.00	194.9	16	58	400	106.8	0.51	1.05*	0.73	1.27	2
ROSS STORES	01	19	11	13	0.24	1.26	24.6	72	64	110	221.0	1.49	1.44	1.78	1.61	3
SEARS, ROEBUCK	12	39	10	16	0.92	2.34	389.9	–5	69	969	79.2	3.12	2.51	3.39	2.89	2
SERVICE MERCHANDISE	12	6	3	10	0.00	0.00	99.7	29	45	126	75.3	0.61	0.64	0.67	0.79	5
SHOPKO STORES	02	11	12	9	0.44	3.87	32.0	20	36	91	46.6	1.18	1.21	1.06	1.44	5
SPIEGEL	12	9	5	NM	0.20	2.22	107.7	–11	5	60	32.8	0.23	–0.07	NA	0.45	20
SPORTS AUTHORITY	01	21	13	20	0.00	0.00	20.8	1	50	95	120.1	0.81	1.07	NA	1.38	2
STAPLES	01	26	5	38	0.00	0.00	104.6	72	78	290	202.5	0.43	0.68	1.07	0.90	1
STRAWBRIDGE & CLOTHIER	01	22	22	54	1.10	5.00	10.6	–2	33	79	60.9	1.92	0.41	0.72	1.00	N
TALBOTS	01	29	11	16	0.28	0.96	34.5	–8	32	168	67.1	1.56	1.80	2.34	2.13	2
TJX	01	17	6	18	0.56	3.37	72.4	6	79	281	125.0	1.03	0.92	1.09	1.21	10
TOYS 'R' US	01	23	12	13	0.00	0.00	273.1	–25	61	787	124.0	1.85	1.73	2.13	2.00	6
VALUE CITY DEPARTMENT STORES	07	7	7	16	0.00	0.00	31.9	–23	21	72	24.6	1.21	0.43*	0.75	0.84	25
VENTURE STORES	01	4	15	NM	0.00	0.00	17.3	–69	59	112	114.5	1.53(b)	–0.27	NA	0.41	29
VIKING OFFICE PRODUCTS	06	46	5	43	0.00	0.00	40.8	51	88	281	150.2	0.76	1.08*	1.37	1.33	1
WABAN	01	19	16	9	0.00	0.00	32.9	3	84	214	140.3	1.83(b)	2.01	2.74	2.26	5
WAL-MART STORES	01	24	6	19	0.20	0.83	2295.8	14	31	1096	31.9	1.17	1.29	1.61	1.50	3
WICKES LUMBER	12	6	5	NM	0.00	0.00	6.1	–39	33	22	72.1	4.59	–0.09	NA	1.25	16
WOOLWORTH	01	15	10	29	0.00	0.00	133.0	0	49	357	124.1	0.36	0.52	0.28	0.98	10
ZALE	07	17	11	19	0.00	0.00	35.0	39	89	95	93.9	0.66	0.88*	NA	1.05	1
9 ELECTRICAL & ELECTRONICS																
INDUSTRY AVERAGE		**41**	**14**	**17**	**0.54**	**1.16**	**142.4**	**41**	**69**	**456**	**154.1**	**1.76**	**2.42**	**3.11**	**3.00**	**5.**
(A) ELECTRICAL PRODUCTS																
GROUP AVERAGE		**41**	**14**	**16**	**1.02**	**2.18**	**99.7**	**15**	**66**	**365**	**54.1**	**1.38**	**2.10**	**2.00**	**2.73**	**5.**
AMETEK	12	18	2	13	0.24	1.36	32.9	–1	54	135	34.0	1.05	1.37	1.38	1.58	2.
COOPER INDUSTRIES	12	37	15	15	1.32	3.62	107.6	–1	76	476	66.8	2.10	2.44	2.19	2.75	2.
EMERSON ELECTRIC	09	78	21	19	1.96	2.51	224.5	26	66	1000	34.8	4.04	4.15*	4.49	4.52	0.
GENERAL SIGNAL	12	32	11	14	0.96	2.98	47.3	2	79	323	80.5	2.20	2.29	2.93	2.61	2.
HUBBELL	12	61	19	17	1.88	3.08	32.9	21	55	276	21.2	3.20	3.66	3.35	4.05	2.
MAGNETEK	06	8	5	9	0.00	0.00	24.7	–38	72	101	48.2	–0.69	0.87*	0.80	0.96	8.
NATIONAL SERVICE INDUSTRIES	08	33	15	17	1.12	3.45	48.3	24	61	322	31.6	1.67	1.93*	1.90	2.12	0.
RAYCHEM	06	52	18	NM	0.32	0.62	44.1	48	86	308	85.5	0.04–	–0.49*	NA	3.10	11.
THOMAS & BETTS	12	73	29	18	2.24	3.05	19.7	10	75	305	56.3	0.10	4.07	0.76	4.82	3.
WESTINGHOUSE ELECTRIC	12	17	4	24	0.20	1.19	415.3	60	33	407	81.8	0.07	0.69	0.19	0.78	21.
(B) ELECTRONICS																
GROUP AVERAGE		**43**	**17**	**17**	**0.47**	**1.02**	**193.1**	**24**	**69**	**547**	**100.9**	**2.10**	**2.61**	**3.06**	**3.00**	**4.**
GENERAL INSTRUMENT	12	26	7	16	0.00	0.00	122.8	–15	87	460	217.3	2.01	1.60	NA	1.50	12.
HARRIS	06	58	33	15	1.36	2.36	38.9	35	80	382	76.1	3.07	3.95*	4.32	4.49	1
HUGHES ELECTRONICS	12	4	21	17	0.92	1.94	399.9	36	18	354	20.7	2.70	2.75	3.23	2.93	1.
LITTON INDUSTRIES	07	4	16	16	0.00	0.00	46.2	22	77	243	50.3	1.10	2.84*	1.74	3.08	1.
LORAL	03	34	9	17	0.32	0.94	191.3	102	61	572	57.3	1.69	2.00	2.30	2.22	3.

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	1996 ESTIMATES I/B/E/S 1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYSTS I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYSTS VARIATION %
MOTOROLA	12	62	18	20	0.40	0.65	591.0	7	64	1524	133.3	2.66	3.13	4.10	3.89	4.4
RAYTHEON	12	45	17	14	0.75	1.69	242.4	37	71	770	42.5	2.26	3.23	3.03	3.59	2.2
SENSORMATIC ELECTRONICS	06	22	13	22	0.22	1.02	71.9	–40	91	379	213.9	1.16	0.97*	1.27	1.37	6.6
VARIAN ASSOCIATES	09	48	15	16	0.28	0.58	33.8	37	74	240	96.7	2.22	3.01*	4.47	3.90	2.3
(C) INSTRUMENTS																
GROUP AVERAGE		**44**	**13**	**20**	**0.55**	**1.29**	**62.9**	**54**	**70**	**352**	**79.1**	**1.90**	**2.30**	**2.41**	**2.73**	**3.5**
BECKMAN INSTRUMENTS	12	35	12	15	0.44	1.26	28.9	29	68	201	49.3	1.68	2.33	2.36	2.57	1.9
HONEYWELL	12	48	16	18	1.04	2.18	127.2	51	70	553	72.1	2.15	2.58	2.41	2.94	3.4
PERKIN-ELMER	06	36	7	23	0.68	1.89	42.1	41	73	301	102.9	1.66	1.57*	1.44	1.94	3.1
TEKTRONIX	05	54	19	16	0.60	1.11	33.4	71	75	310	102.7	2.63	3.40	3.90	4.22	5.7
THERMO ELECTRON	12	50	14	30	0.00	0.00	83.1	80	64	394	68.5	1.40	1.64	1.91	1.96	3.6
(D) SEMICONDUCTORS & OTHER COMPONENTS																
GROUP AVERAGE		**39**	**13**	**17**	**0.17**	**0.36**	**173.1**	**70**	**70**	**506**	**308.7**	**1.76**	**2.58**	**4.28**	**3.33**	**7.2**
ADVANCED MICRO DEVICES	12	21	19	7	0.00(c)	0.00	104.4	–10	64	438	342.8	2.92(b)	2.86	3.59	2.63	26.2
AMP	12	40	12	19	0.92	2.29	217.6	15	77	818	58.2	1.76	2.14	2.13	2.51	2.4
CIRRUS LOGIC	03	29	7	16	0.00	0.00	62.1	167	85	206	979.8	0.97	1.81	1.68	2.76	10.1
INTEL	12	61	13	15	0.16	0.26	823.5	90	68	1592	321.5	2.62	4.13	5.71	5.13	6.2
LSI LOGIC	12	42	9	24	0.00	0.00	122.2	122	96	414	245.9	0.93(b)	1.75	3.96	2.45	4.5
MICRON TECHNOLOGY	08	54	9	14	0.20	0.37	206.4	149	60	588	593.5	1.90(b)	3.90*	12.27	7.22	10.8
MOLEX	06	34	11	27	0.06	0.18	100.9	23	22	260	36.4	0.96	1.24*	1.26	1.52	1.3
NATIONAL SEMICONDUCTOR	05	21	12	9	0.00	0.00	123.4	10	87	416	287.6	1.92(b)	2.41	3.37	2.83	11.3
SCI SYSTEMS	06	34	13	21	0.00	0.00	27.4	87	60	133	325.7	1.08	1.63*	3.49	2.09	2.4
SOLECTRON	08	43	13	26	0.00	0.00	41.8	56	88	203	122.0	1.18(b)	1.62*	2.22	2.04	2.5
TEXAS INSTRUMENTS	12	58	20	10	0.68	1.18	188.8	57	76	779	299.6	3.64	5.70	9.72	6.59	5.0
VISHAY INTERTECHNOLOGY	12	35	15	20	0.00(d)	0.00	58.5	74	56	230	91.9	1.20	1.79	1.90	2.21	3.6
10 FOOD																
INDUSTRY AVERAGE		**31**	**10**	**18**	**0.55**	**1.71**	**111.0**	**26**	**45**	**281**	**49.5**	**1.31**	**1.83**	**2.20**	**2.06**	**5.9**
(A) FOOD DISTRIBUTION																
GROUP AVERAGE		**24**	**13**	**20**	**0.47**	**1.85**	**47.3**	**35**	**61**	**203**	**49.6**	**1.07**	**1.32**	**1.39**	**1.63**	**5.2**
FLEMING	12	23	29	19	1.20	5.19	37.7	0	76	302	64.5	1.51	1.23	0.95	1.58	3.2
INTERNATIONAL MULTIFOODS	02	23	16	14	0.80	3.42	18.0	28	58	144	36.7	3.16	1.66	2.31	1.85	2.7
JP FOODSERVICE	06	16	7	26	0.00	0.00	15.9	71	52	40	60.3	–0.59	0.59*	NA	0.94	3.2
RICHFOOD HOLDINGS	04	28	6	19	0.10	0.36	21.4	76	62	96	68.0	1.19	1.45	1.89	1.73	6.9
RYKOFF-SEXTON	04	19	14	21	0.06	0.31	14.7	18	73	73	47.5	0.64	0.93	0.66	1.47	19.0
SMART & FINAL	12	19	6	22	0.20	1.04	20.2	38	35	55	14.2	0.85	0.88	1.06	1.18	3.4
SUPERVALU	02	32	17	13	0.98	3.04	68.0	27	70	347	48.6	0.61	2.44	1.34	2.71	2.2
SYSCO	06	31	8	22	0.44	1.43	182.5	19	62	563	56.8	1.18	1.38*	1.55	1.58	1.3
(B) FOOD PROCESSING																
GROUP AVERAGE		**37**	**10**	**19**	**0.73**	**1.94**	**138.9**	**26**	**46**	**350**	**57.0**	**1.55**	**2.17**	**2.78**	**2.34**	**6.5**
ARCHER DANIELS MIDLAND	06	17	11	12	0.20(d)	1.16	532.5	–14	52	728	75.8	0.89	1.48*	1.30	1.41	7.1
CAMPBELL SOUP	07	56	10	20	1.24	2.22	249.0	27	24	528	21.1	2.51	2.80*	12.24	3.11	1.0
CHIQUITA BRANDS INTERNATIONAL	12	13	10	20	0.20	1.50	50.4	0	70	115	72.5	–1.07	0.66	NA	1.22	48.4
CONAGRA	05	40	10	17	0.95	2.38	240.6	24	50	581	42.0	2.06	2.34	2.51	2.66	2.3
CPC INTERNATIONAL	12	69	13	19	1.52	2.21	145.8	28	61	756	42.0	2.25	3.65	3.24	4.09	1.5
DEAN FOODS	05	28	15	13	0.72	2.57	40.1	–3	42	214	37.9	2.01	2.12	2.15	2.37	3.8
DOLE FOOD	12	38	20	23	0.40	1.06	59.8	64	60	198	47.7	1.14	1.62	1.12	2.49	10.8
FLOWERS INDUSTRIES	06	13	5	17	0.57	4.43	57.9	7	31	137	34.1	0.53	0.75*	0.69	0.84	14.3
GENERAL MILLS	05	55	1	19	1.88	3.41	158.6	–3	66	700	52.5	1.64	2.98	2.29	3.30	3.6
HEINZ (H. J.)	04	32	7	18	1.06	3.33	369.3	30	42	656	51.4	1.59	1.78	1.75	1.96	1.5
HERSHEY FOODS	12	62	13	18	1.44	2.33	77.4	14	33	420	36.7	2.12	3.40	3.14	3.80	1.6
HORMEL FOODS	10	25	9	16	0.58	2.37	76.7	–1	24	146	23.6	1.54	1.57*	1.77	1.70	4.7
HUDSON FOODS	09	16	10	13	0.08	0.50	29.9	–3	40	126	88.7	1.08	1.21*	1.40	1.42	3.5
IBP	12	63	21	10	0.20	0.32	47.4	106	91	364	99.2	3.79	6.20	11.59	6.51	8.3
INTERSTATE BAKERIES	05	22	13	32	0.50	2.23	35.1	188	40	90	39.0	1.05	0.70	0.60	1.28	3.9
KELLOGG	12	76	9	22	1.56	2.04	217.4	29	75	570	29.7	3.15	3.48	3.89	3.85	1.6
McCORMICK	11	24	6	18	0.52	2.20	81.2	29	42	221	88.7	0.75	1.29	1.18	1.48	2.7
NABISCO HOLDINGS	12	28	16	23	0.55	1.95	265.0	NA	19	185	41.0	NA	1.25	NA	1.54	2.6
PIONEER HI-BRED INTERNATIONAL	08	57	12	27	0.80	1.39	84.1	65	56	350	108.7	2.40	2.16*	3.11	2.68	4.1
QUAKER OATS	06	35	9	6	1.14	3.28	134.3	14	39	437	106.1	1.68	6.00*	4.33	1.40	14.3
RALCORP HOLDINGS	09	24	5	24	0.00	0.00	33.4	6	56	158	46.8	1.59	1.00*	NA	1.59	3.8
RALSTON PURINA	09	64	4	23	1.20	1.88	100.1	43	57	431	34.4	1.93	2.76	2.11	3.54	4.5
SARA LEE	06	32	8	20	0.76	2.37	483.9	29	47	816	35.5	0.44	1.62*	1.06	1.83	2.7
SMITHFIELD FOODS	04	31	11	32	0.00	0.00	16.4	–3	31	94	151.7	1.83	0.96	0.90	2.28	18.4
TYSON FOODS	09	24	10	16	0.12	0.51	144.7	12	20	168	48.0	–0.01	1.51*	1.67	1.69	3.0
UNIVERSAL FOODS	09	35	14	14	1.00	2.87	26.1	27	69	189	49.3	1.95	2.54*	2.32	2.42	0.8
WLR FOODS	06	17	10	18	0.24	1.45	17.6	–9	19	59	67.2	1.01	0.90*	0.87	0.94	4.3
WRIGLEY (WM.) JR.	12	47	7	25	1.05(c)	2.23	115.6	–5	25	374	24.4	1.98	1.91	2.37	2.15	2.3
(C) FOOD RETAILING																
GROUP AVERAGE		**24**	**9**	**17**	**0.28**	**1.28**	**95.1**	**22**	**37**	**205**	**36.2**	**1.05**	**1.51**	**1.64**	**1.80**	**5.3**
ALBERTSON'S	01	31	7	17	0.52	1.69	252.8	6	44	637	42.2	1.65	1.84	2.16	2.08	1.4
AMERICAN STORES	01	26	15	12	0.56	2.13	147.5	1	58	443	52.2	2.42	2.16	2.58	2.34	4.3
CIRCLE K	04	24	11	15	0.00	0.00	24.2	NA	19	31	NA	1.18	1.63	NA	1.93	1.6
FOOD LION	12	6	2	17	0.10	1.64	479.4	15	5	91	23.3	0.32	0.36	0.13	0.42	4.8

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVIDEND RATE	YIELD %	SHRS. OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYSTS I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYSTS VARIATION %
GIANT FOOD	02	32	13	19	0.74	2.29	59.3	48	39	256	23.3	1.59	1.73	1.54	1.87	3.
GREAT ATLANTIC & PACIFIC TEA	02	22	21	17	0.20	0.91	38.2	21	38	220	27.6	–4.36	1.26	0.28	1.58	8.
HANNAFORD BROTHERS	12	24	12	14	0.42	1.75	42.2	–4	37	172	19.1	1.50	1.67	1.80	1.88	4.
KROGER	12	34	–14	13	0.00	0.00	123.6	55	56	477	59.4	2.19(b)	2.49	2.98	2.87	2.
MARSH SUPERMARKETS	03	13	14	12	0.44	3.45	8.4	35	22	26	18.6	1.02	1.07	0.88	1.19	2.
PENN TRAFFIC	01	13	–2	38	0.00	0.00	10.9	–65	59	67	42.8	1.97	0.35	0.81	1.53	34.
RISER FOODS	06	15	9	11	0.05	0.33	8.1	122	35	29	31.7	0.18	1.42*	0.58	1.60	NM
RUDDICK	09	11	7	13	0.24	2.23	46.1	12	59	93	16.1	0.68	0.84*	0.81	0.91	1.
SAFEWAY	12	47	7	18	0.00	0.00	106.3	48	35	255	46.8	2.05	2.64	2.87	3.15	2.
SMITH'S FOOD & DRUG	12	24	20	15	0.60	2.49	25.1	–4	31	121	71.9	1.73	1.65	1.77	1.85	6.
STOP & SHOP	01	21	6	14	0.00	0.00	49.9	–17	33	123	44.9	1.59	1.52	4.38	1.85	3.
VONS	12	27	14	17	0.00	0.00	43.5	48	47	172	47.1	0.61	1.54	0.89	1.78	1.
WINN-DIXIE STORES	06	32	8	21	0.90	2.81	150.6	26	16	264	12.9	1.45	1.56*	1.84	1.77	1.
11 FUEL																
INDUSTRY AVERAGE		39	19	40	1.13	2.52	171.6	10	59	494	58.9	1.20	1.88	1.88	2.57	12.
(A) COAL, OIL & GAS																
GROUP AVERAGE		39	19	42	1.22	2.71	181.0	8	59	496	55.8	1.15	1.96	1.91	2.68	12.
AMERADA HESS	12	48	33	NM	0.60	1.26	93.0	4	66	458	58.4	0.79	–1.16	NA	1.06	45.
AMOCO	12	68	30	15	2.40	3.54	496.8	15	59	1290	35.6	3.60	4.49	4.15	4.88	3.
ASHLAND	09	35	22	436	1.10	3.15	63.0	4	54	412	71.3	2.94	0.08*	0.24	2.74	9.
ATLANTIC RICHFIELD	12	108	42	13	5.50(c)	5.08	160.8	7	62	1096	49.9	5.63	8.10	4.47	8.40	6.
BURLINGTON RESOURCES	12	39	18	214	0.55	1.43	126.6	10	67	585	60.5	1.20	0.18	0.36	0.79	25
CHEVRON	12	49	23	16	2.00	4.05	652.2	11	47	1091	33.2	2.60	3.15	2.76	3.50	5
COASTAL	12	33	24	14	0.40	1.20	104.8	29	61	449	46.2	2.05	2.37	2.01	2.83	4.
CROWN CENTRAL PETROLEUM	12	14	26	54	0.00	0.00	10.0	14	25	36	22.7	–3.63	0.25	NA	1.25	28.
DIAMOND SHAMROCK	12	25	21	15	0.56	2.23	29.0	–3	76	201	79.3	2.45	1.65	1.41	2.62	8.
EXXON	12	77	32	16	3.00	3.88	1241.8	27	41	1423	22.7	4.07	4.98	4.67	5.16	4.
KERR-McGEE	12	58	28	22	1.64	2.83	51.9	26	72	445	58.6	1.74	2.62	2.01	3.23	7.
MAPCO	12	54	22	14	1.00	1.86	29.5	3	73	230	42.3	2.64	3.78	3.13	4.90	5.
MITCHELL ENERGY & DEVELOPMENT	01	18	9	23	0.53	3.01	52.0	–7	21	83	15.8	0.87	0.78	0.65	0.99	16.
MOBIL	12	104	44	16	3.70	3.55	395.2	24	53	1443	41.7	4.28	6.70	5.71	7.27	4.
MURPHY OIL	12	39	29	32	1.30	3.30	44.8	–7	71	246	49.0	2.37	1.25	1.31	1.90	12.
OCCIDENTAL PETROLEUM	12	22	10	12	1.00	4.52	318.2	15	53	555	73.1	–0.36	1.79	0.85	1.84	12.
ORYX ENERGY	12	13	–2	40	0.00	0.00	104.4	17	66	325	78.4	–0.68	0.33	0.23	0.69	21.
PENNZOIL	12	40	18	NM	1.00	2.52	46.3	–10	57	370	44.1	–6.16	–0.41	NA	1.03	35.
PHILLIPS PETROLEUM	12	33	12	15	1.22	3.66	262.2	2	54	624	46.1	1.85	2.19	1.94	2.43	8.
PITTSTON MINERALS GROUP	12	13	–10	18	0.65	4.91	8.5	–47	62	69	108.6	–7.50	0.73	NA	1.50	9.
SUN	12	28	14	20	1.00	3.60	75.0	–32	82	392	98.2	0.91	1.42	1.21	2.17	14.
TESORO PETROLEUM	12	9	7	11	0.00	0.00	24.5	–8	51	87	81.5	0.77	0.79	0.66	1.30	13.
TEXACO	12	74	36	19	3.20	4.33	260.1	24	58	964	57.1	3.43	3.83	3.33	4.52	7.
TOSCO	12	38	16	20	0.64	1.68	37.1	31	85	251	99.4	2.24(b)	1.87	1.53	3.02	6.
ULTRAMAR	12	25	14	20	1.10	4.36	38.6	–1	92	227	58.8	1.56	1.24	1.44	2.46	5.
UNOCAL	12	27	10	24	0.80	2.98	247.1	0	63	665	59.9	0.36	1.12	0.68	1.57	12.
USX-MARATHON GROUP	12	18	11	19	0.68	3.70	287.4	12	66	516	51.8	1.10	0.96	0.74	1.19	8.
VALERO ENERGY	12	26	24	24	0.52	2.01	43.7	54	75	186	54.6	0.40	1.08	0.46	1.62	18.
VASTAR RESOURCES	12	29	1	30	0.30	1.02	97.3	18	17	92	12.8	1.54	0.99	NA	1.57	20.
ZEIGLER COAL HOLDING	12	11	5	7	0.20	1.78	28.4	–4	27	63	61.5	1.35	1.51	NA	2.01	4.
(B) PETROLEUM SERVICES																
GROUP AVERAGE		40	22	25	0.59	1.39	115.1	24	59	482	82.6	1.56	1.42	1.64	1.90	7.
BAKER HUGHES	09	20	11	30	0.46	2.26	141.2	12	69	487	108.8	0.85	0.67*	0.50	0.98	4.
COOPER CAMERON	12	26	36	NM	0.00	0.00	25.0	NA	5	7	NA	NA	–0.14	NA	0.89	21.
HALLIBURTON	12	43	17	22	1.00	2.31	114.3	31	76	568	102.6	1.56	1.96	1.98	2.23	7.
SCHLUMBERGER	12	64	20	23	1.50	2.36	241.9	26	60	989	58.5	2.21	2.75	2.43	3.19	3.
WESTERN ATLAS	12	48	24	26	0.00	0.00	53.1	28	86	359	60.7	1.60	1.85	NA	2.22	3.
12 HEALTH CARE																
INDUSTRY AVERAGE		41	11	22	0.55	1.04	172.3	32	59	464	101.9	1.30	2.00	2.82	2.41	4.
(A) DRUG DISTRIBUTION																
GROUP AVERAGE		35	11	18	0.39	1.11	60.9	30	61	250	73.4	–0.42	1.93	1.89	2.18	2.
AMERISOURCE HEALTH	09	29	7	9	0.00	0.00	22.1	NA	38	103	NA	–11.69	1.53*	NA	1.82	1.
BERGEN BRUNSWIG	09	24	13	15	0.48	2.00	39.8	23	61	215	108.3	1.45	1.61*	1.32	1.82	1.
BINDLEY WESTERN INDUSTRIES	12	18	17	14	0.08	0.45	11.0	17	42	75	76.9	1.20(b)	1.27	1.21	1.40	2
CARDINAL HEALTH	06	54	13	27	0.12	0.22	42.2	17	68	314	65.7	0.86	2.01*	1.70	2.43	0.
ECKERD	01	43	–3	15	0.00	0.00	32.2	43	94	166	74.6	2.41	2.94	NA	3.21	1
LONGS DRUG STORES	01	40	26	14	1.12	2.82	20.0	21	45	201	29.5	2.35	2.63	2.34	2.75	1
McKESSON	03	51	23	17	1.00	1.95	44.6	60	52	226	83.9	–4.51	2.94	3.88	3.32	6.
REVCO D. S.	05	28	12	24	0.00	0.00	67.1	18	66	197	82.9	0.95	1.16	1.91	1.37	2.
RITE AID	02	31	12	16	0.68	2.18	83.8	33	87	434	89.8	1.67	1.93	1.28	2.18	4.
WALGREEN	08	29	7	23	0.44	1.50	246.1	34	53	570	48.5	1.14	1.30*	1.45	1.48	1.
(B) DRUGS & RESEARCH																
GROUP AVERAGE		59	11	22	1.29	1.91	319.8	43	55	784	76.6	2.57	2.96	4.42	3.33	3.
ALLERGAN	[illegible]	31	9	16	0.48	1.55	64.2	11	81	365	43.8	1.73	1.90	2.08	2.10	NM
AMERICAN HOME PRODUCTS	[illegible]	91	17	19	3.08	3.38	309.3	47	63	1159	42.0	4.97	4.76	5.14	5.67	2.
AMGEN	12	50	6	26	0.00	0.00	266.0	69	64	799	256.3	1.15	1.94	4.12	2.26	2.

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COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVI-DEND RATE	YIELD %	SHRS OUT MILS.	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURN-OVER %	EARNINGS PER SHARE 1994 ACTUAL	1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CON-SENSUS	1996 ESTIMATES FROM ANALYST VARIA-TION %
BRISTOL-MYERS SQUIBB	12	80	12	16	2.96	3.69	507.2	39	51	1295	44.4	3.62	5.10	4.62	5.44	2
GENENTECH	12	51	12	38	0.00	0.00	118.2	13	18	190	44.1	1.04	1.34	1.94	1.43	8
IVAX	12	27	6	27	0.08	0.30	115.4	43	29	211	130.4	0.77	0.99	1.82	1.33	5
LILLY (ELI)	12	100	20	22	2.74	2.75	292.0	52	66	854	50.0	4.10	4.58	3.40	5.19	2
MERCK	12	62	9	23	1.36	2.20	1231.9	60	51	1505	48.8	2.38	2.70	2.90	3.07	2
PFIZER	12	58	8	23	1.04	1.79	636.2	52	68	1252	56.9	2.10	2.49	2.52	2.90	1
PHARMACIA & UPJOHN	12	36	10	21	1.02	2.85	250.8	69	NA	NA	107.7	1.84(b)	1.75	1.74	2.09	4
RHONE-POULENC RORER	12	48	12	15	1.20	2.51	134.2	31	18	157	16.7	2.45	3.19	NM	3.43	3
SCHERING-PLOUGH	12	57	5	20	1.16	2.02	367.6	53	66	1098	61.2	2.41	2.82	3.36	3.20	1
SIGMA-ALDRICH	12	49	16	19	0.36	0.73	49.9	49	60	417	93.3	2.21	2.62	2.93	2.91	2
WARNER-LAMBERT	12	89	15	17	2.60	2.91	135.0	16	76	887	76.7	5.17	5.27	5.72	5.61	6
(C) HEALTH-CARE SERVICES																
GROUP AVERAGE		**30**	**11**	**25**	**0.06**	**0.15**	**101.1**	**19**	**60**	**311**	**146.2**	**1.19**	**1.31**	**2.37**	**1.90**	**6.**
BEVERLY ENTERPRISES	12	12	9	15	0.00	0.00	98.2	–6	66	327	145.4	0.79	0.80	1.00	0.97	5
CAREMARK INTERNATIONAL	12	20	5	20	0.04	0.20	81.0	30	56	247	107.5	1.08	0.99	1.65	1.27	3
CHARTER MEDICAL	09	18	3	NM	0.00	0.00	28.1	–11	70	112	103.1	–1.78	–1.54*	NA	2.06	10
COLUMBIA/HCA HEALTHCARE	12	52	15	18	0.12	0.23	442.8	73	64	1012	57.6	2.13	2.92	3.63	3.39	1
FHP INTERNATIONAL	06	29	28	100	0.00	0.00	40.3	14	80	192	202.0	1.71	0.29*	0.58	1.52	11
FOUNDATION HEALTH	06	46	13	51	0.00	0.00	57.0	48	80	253	190.6	2.84	0.90*	1.91	3.02	2
HEALTHSOUTH	12	30	6	28	0.00	0.00	71.4	73	86	271	135.3	0.70	1.07	0.74	1.36	4
HUMANA	12	28	7	24	0.00	0.00	161.8	24	68	379	182.4	1.10	1.16	NA	1.46	9
LABORATORY CORP. OF AMERICA HOLDINGS	12	9	5	16	0.00	0.00	84.8	–35	34	128	57.8	0.36	0.55	0.44	0.81	6
MANOR CARE	05	33	10	19	0.09	0.27	62.5	19	52	332	43.9	1.51	1.76	2.26	2.05	2
NOVACARE	06	6	7	6	0.00	0.00	65.3	–18	41	165	100.4	0.90	0.95*	1.24	0.53	18
ORNDA HEALTHCORP	08	20	8	13	0.00	0.00	44.6	61	58	154	217.8	–1.29	1.52*	NA	1.66	3
PACIFICARE HEALTH SYSTEMS	09	87	23	24	0.00	0.00	30.8	47	56	186	225.9	3.02	3.62*	5.56	4.32	1
PHYSICIAN CORP. OF AMERICA	12	15	7	27	0.00	0.00	37.9	–28	56	142	276.8	1.30	0.57	1.31	0.98	18
QUORUM HEALTH GROUP	06	22	8	19	0.00	0.00	47.9	16	30	103	69.5	0.96	1.14*	6.45	1.36	1
TENET HEALTHCARE	05	18	11	14	0.00	0.00	200.1	52	56	387	78.9	1.10	1.28	1.13	1.49	8
U. S. HEALTHCARE	12	46	6	19	1.00	2.20	153.5	6	68	648	327.0	2.42	2.39	4.16	2.69	4
UNITED HEALTHCARE	12	63	18	30	0.03	0.05	173.8	40	87	779	182.6	1.64	2.13	3.40	2.87	5
VALUE HEALTH	12	25	10	16	0.00	0.00	40.7	–32	68	267	193.2	1.19	1.54	2.26	1.83	2
WELLPOINT HEALTH NETWORK	12	31	16	14	0.00	0.00	99.5	6	15	129	26.0	2.14	2.19	2.53	2.34	4
(D) MEDICAL PRODUCTS																
GROUP AVERAGE		**43**	**11**	**21**	**0.63**	**1.51**	**215.0**	**42**	**62**	**559**	**77.0**	**1.46**	**2.07**	**2.09**	**2.40**	**5.**
ABBOTT LABORATORIES	12	41	5	19	0.84	2.07	795.1	23	51	1183	37.7	1.87	2.13	2.45	2.39	1
BARD (C. R.)	12	29	10	16	0.64	2.22	55.5	14	66	315	58.0	1.44	1.86	2.09	2.09	5
BAUSCH & LOMB	12	36	16	14	1.04	2.88	57.3	4	69	380	101.6	0.23	2.56	0.96	2.87	4
BAXTER INTERNATIONAL	12	42	13	18	1.13	2.70	276.6	45	71	766	59.8	2.13	2.36	2.37	2.60	1
BECTON, DICKINSON	09	70	21	19	0.82	1.18	65.9	43	85	527	71.3	3.05	3.59*	3.67	4.05	3
GUIDANT	12	37	4	27	0.10	0.27	71.9	134	22	86	88.2	1.28	1.38	NA	1.69	4
JOHNSON & JOHNSON	12	87	14	24	1.32	1.52	647.7	59	60	1404	36.4	3.12	3.67	4.23	4.18	1
MALLINCKRODT GROUP	06	34	15	14	0.56	1.64	76.5	14	77	386	60.3	1.38	2.37*	2.45	2.50	3
MEDTRONIC	04	55	6	30	0.26	0.47	231.1	98	73	734	63.3	1.28	1.84	2.14	2.21	1
OWENS & MINOR	12	13	5	NM	0.18	1.38	30.8	–9	54	111	66.4	0.15	0.00	0.25	0.51	21
U. S. SURGICAL	12	25	13	26	0.08	0.32	57.1	33	50	262	204.2	0.08	0.96	0.28	1.27	8
13 HOUSING & REAL ESTATE																
INDUSTRY AVERAGE		**32**	**16**	**17**	**0.45**	**1.52**	**46.5**	**26**	**51**	**213**	**64.6**	**1.77**	**2.61**	**3.25**	**3.08**	**7.**
(A) BUILDING MATERIALS																
GROUP AVERAGE		**40**	**13**	**13**	**0.59**	**1.45**	**62.3**	**25**	**58**	**253**	**52.9**	**1.77**	**3.41**	**4.34**	**3.91**	**4.**
AMERICAN STANDARD	12	30	–6	15	0.00	0.00	76.1	NA	26	77	NA	–1.29	1.94	NA	2.60	3
LAFARGE	12	19	13	10	0.40	2.06	68.8	10	28	127	20.2	1.18	1.92	0.96	2.21	16
OWENS-CORNING FIBERGLAS	12	44	–6	11	0.00	0.00	50.8	60	77	306	85.8	1.66(b)	4.20	3.26	4.80	7
PPG INDUSTRIES	12	45	13	12	1.20	2.64	196.0	16	52	650	39.4	2.43	3.75	3.17	4.26	5
RPM	05	21	6	18	0.60	2.86	57.0	12	38	183	48.5	1.07	1.15	1.30	1.30	2.
SHERWIN-WILLIAMS	12	40	14	17	0.64	1.62	85.1	19	60	442	46.9	2.15	2.34	2.60	2.62	1.
TECUMSEH PRODUCTS	12	53	39	10	1.55	2.92	21.9	18	67	185	66.0	5.50	5.50	10.99	5.64	2
TEXAS INDUSTRIES	05	51	32	9	0.40	0.78	11.3	32	70	127	51.3	3.88	5.84	6.54	6.90	2
USG	12	29	0	8	0.00	0.00	45.2	51	70	173	83.0	–2.14	3.57	NA	4.41	7
VULCAN MATERIALS	12	57	21	13	1.46	2.57	35.9	12	60	190	25.4	2.67	4.47	3.77	4.93	4
YORK INTERNATIONAL	12	45	21	16	0.24	0.54	37.5	21	94	325	62.8	2.40	2.78	6.47	3.32	2
(B) CONSTRUCTION & REAL ESTATE																
GROUP AVERAGE		**20**	**20**	**25**	**0.24**	**1.62**	**21.6**	**28**	**64**	**149**	**81.3**	**1.76**	**1.35**	**1.61**	**1.78**	**12.**
CENTEX	03	33	24	19	0.20	0.61	28.2	44	74	265	100.7	3.04	1.77	2.91	2.32	11
KAUFMAN & BROAD HOME	11	13	12	20	0.30	2.31	32.4	1	58	216	91.6	1.16	0.65	0.75	1.01	11
M. D. C. HOLDINGS	12	7	10	8	0.12	1.81	19.2	35	40	51	48.3	0.94	0.81	1.67	1.13	15
PULTE	12	31	27	18	0.24	0.77	26.9	32	58	222	68.1	2.24	1.75	2.61	2.44	9.
RYLAND GROUP	12	12	21	88	0.60	4.85	15.6	–17	79	98	42.9	1.28(b)	0.14	0.27	0.84	28.
U. S. HOME	12	26	28	10	0.00	0.00	11.2	66	76	80	119.7	2.50(b)	2.49	NA	2.74	6
WEBB (DEL)	06	20	16	11	0.20	0.99	17.4	34	66	111	97.5	1.13	1.87*	1.46	1.95	2.

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COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVI-DEND RATE	YIELD %	SHRS OUT. MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURN-OVER %	EARNINGS PER SHARE 1994 ACTUAL	1996 ESTIMATES I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CON-SENSUS	1996 ESTIMATES FROM ANALYST VARI-TIO %
14 LEISURE TIME INDUSTRIES																
INDUSTRY AVERAGE		29	10	19	0.31	0.92	142.3	18	60	404	89.1	1.32	1.52	1.91	1.81	14
(A) EATING PLACES																
GROUP AVERAGE		18	2	17	0.13	0.57	164.5	0	50	364	92.3	0.97	0.80	1.56	0.99	14
BRINKER INTERNATIONAL	06	15	8	16	0.00	0.00	76.6	–10	68	260	161.4	0.83	0.98*	1.28	0.88	4
DARDEN RESTAURANTS	05	12	7	15	0.00	0.00	158.5	NA	55	362	NA	0.33	0.79	NA	0.91	3
FLAGSTAR	12	4	25	NM	0.00	0.00	42.4	–41	21	46	57.5	–0.14	–1.27	NA	–0.92	68
McDONALD'S	12	45	11	23	0.27	0.61	696.3	53	58	1127	50.3	1.68	1.95	2.12	2.23	1
MORRISON RESTAURANTS	05	17	7	12	0.37	2.20	34.5	–31	47	166	69.1	1.73	1.38	1.91	1.62	8
SHONEY'S	10	11	–3	16	0.00	0.00	41.5	–15	50	219	99.8	1.43(b)	0.68	1.11	0.88	9
WENDY'S INTERNATIONAL	12	21	8	19	0.24	1.16	101.8	43	53	371	115.7	0.93	1.09	1.37	1.31	3
(B) ENTERTAINMENT																
GROUP AVERAGE		54	21	50	0.18	0.30	445.5	27	48	917	76.1	1.15	1.62	1.43	1.94	11
DISNEY (WALT)	09	60	12	23	0.36	0.60	522.6	32	49	1146	60.1	2.04	2.60*	2.44	2.59	5
VIACOM	12	48	29	77	0.00	0.00	368.3	22	48	687	92.1	0.25	0.63	0.42	1.28	17
(C) HOTEL & MOTEL																
GROUP AVERAGE		30	11	19	0.21	0.37	96.6	37	56	323	107.8	1.03	1.46	2.00	1.70	32
BALLY ENTERTAINMENT	12	12	10	20	0.00	0.00	47.3	99	28	176	154.2	–0.10	0.60	NA	0.79	6
CIRCUS CIRCUS ENTERPRISES	01	28	11	16	0.00	0.00	102.7	44	71	335	168.3	1.59	1.70	1.95	1.85	6
HARRAH'S ENTERTAINMENT	12	25	6	19	0.00	0.00	102.6	–19	65	432	138.6	0.49	1.31	1.38	1.67	4
HILTON HOTELS	12	65	25	20	1.20	1.85	48.3	–4	44	316	83.0	2.52	3.19	3.01	3.60	3
HOST MARRIOTT	12	13	4	NM	0.00	0.00	159.0	38	63	228	61.3	–0.13	-0.06	NA	0.04	200
MARRIOTT INTERNATIONAL	12	37	8	20	0.28	0.75	125.2	35	50	432	41.5	1.51	1.82	2.08	2.12	2
MIRAGE RESORTS	12	34	12	20	0.00	0.00	91.1	64	73	342	108.0	1.32	1.69	1.61	1.86	3
(D) OTHER LEISURE																
GROUP AVERAGE		30	12	16	0.48	1.49	108.4	14	70	389	79.5	1.69	1.93	2.10	2.29	5
AMERICAN GREETINGS	02	27	16	14	0.64	2.35	74.6	1	84	432	162.6	2.00	2.00	2.30	2.29	3
BRUNSWICK	12	21	10	13	0.50	2.34	96.0	14	76	378	91.0	1.35	1.59	1.47	1.90	4
CARNIVAL	11	26	7	16	0.36	1.38	284.7	23	41	341	44.5	1.35	1.58	1.78	1.84	2
EASTMAN KODAK	12	68	14	18	1.60	2.34	342.1	44	60	1114	68.1	1.65	3.76	4.18	4.26	3
FLEETWOOD ENTERPRISES	04	24	14	13	0.60	2.50	46.1	28	74	325	96.2	1.82	1.80	2.53	1.97	12
HARLEY-DAVIDSON	12	28	6	19	0.20	0.72	77.3	0	59	289	117.5	1.37	1.45	1.34	1.74	2
HARMAN INTERNATIONAL INDUSTRIES	06	44	18	17	0.20	0.46	16.2	28	78	172	62.0	1.89	2.59*	2.08	3.24	1
HASBRO	12	31	16	15	0.32	1.05	87.8	5	66	356	58.7	2.01	1.98	2.83	2.38	4
MATTEL	12	28	6	18	0.24	0.86	221.2	40	79	634	59.2	1.11(b)	1.60	1.52	1.86	2
MUSICLAND STORES	12	6	5	11	0.00	0.00	34.3	–29	60	94	80.4	0.51	0.57	0.79	0.83	8
OUTBOARD MARINE	09	21	12	9	0.40	1.95	20.0	4	85	232	79.7	2.22(b)	2.33*	NA	2.22	5
POLAROID	12	46	17	26	0.60	1.30	45.2	39	82	305	96.0	2.49	1.76	1.42	2.85	8
ROYAL CARIBBEAN CRUISES	12	24	14	12	0.52	2.14	63.4	–15	NA	NA	17.3	2.25	2.10	2.91	2.38	5
15 MANUFACTURING																
INDUSTRY AVERAGE		36	14	16	0.66	1.78	77.3	23	63	312	93.0	2.05	2.52	2.82	2.98	5
(A) GENERAL MANUFACTURING																
GROUP AVERAGE		41	14	18	1.02	2.59	92.6	17	59	348	61.2	2.04	2.39	2.66	2.89	5
AVERY DENNISON	12	48	15	18	1.08	2.27	53.1	33	61	407	45.6	1.97	2.66	6.36	3.04	2
CORNING	12	30	9	18	0.72	2.38	229.3	2	58	601	65.2	1.32	1.70	1.50	1.86	6
DURACELL INTERNATIONAL	06	53	11	27	1.04	1.96	118.0	24	56	339	75.2	1.68	1.95*	2.84	2.21	0
EXIDE	03	46	20	22	0.08	0.17	20.0	–16	82	149	148.3	0.28	2.05	0.09	4.28	4
FIRST BRANDS	06	46	17	23	0.40	0.87	20.9	30	92	187	55.6	2.71	2.01*	2.25	3.01	1
FOAMEX INTERNATIONAL	12	7	4	11	0.00	0.00	26.6	–29	33	52	129.6	0.98	0.65	NA	1.02	31
HARSCO	12	59	25	15	1.48	2.51	25.3	45	57	223	37.2	3.45	4.00	4.12	4.53	2
HILLENBRAND INDUSTRIES	11	33	10	20	0.60	1.83	70.8	18	33	170	25.8	1.26	1.67	1.83	1.98	4
ILLINOIS TOOL WORKS	12	63	16	19	0.68	1.07	117.6	49	71	523	29.9	2.45	3.28	3.22	3.75	2
JOHNSON CONTROLS	09	69	25	16	1.56	2.25	40.9	42	62	388	46.2	3.60(b)	4.27*	4.88	4.97	4
MARK IV INDUSTRIES	02	21	11	13	0.12(d)	0.58	60.0	25	64	198	36.0	1.29(b)	1.55	1.69	1.80	4
MINNESOTA MINING & MFG.	12	65	17	19	1.88	2.88	419.6	22	65	1050	42.1	3.13	3.40	3.36	3.90	2
NEWELL	12	26	8	18	0.48	1.82	158.6	26	69	527	47.2	1.24	1.43	1.54	1.66	1
PARKER HANNIFIN	06	37	17	12	0.72	1.96	74.2	22	74	424	70.3	0.71	2.96*	1.52	3.44	4
POLARIS INDUSTRIES	12	31	4	14	5.64(c)	18.34	27.3	–10	14	73	57.3	4.67	2.19	3.72	2.50	2
RUBBERMAID	12	28	8	24	0.56	2.04	157.4	–6	42	505	67.7	1.42	1.17	1.46	1.45	5
TELEFLEX	12	44	20	16	0.62	1.40	17.5	26	57	174	37.7	2.35	2.71	2.78	3.15	3
TRINOVA	12	31	14	9	0.72	2.34	29.0	5	77	278	84.0	2.26	3.29	2.12	3.44	4
(B) MACHINE & HAND TOOLS																
GROUP AVERAGE		38	16	14	0.64	1.61	40.1	29	60	235	60.1	2.08	2.89	2.81	3.35	3
BLACK & DECKER	12	37	13	19	0.40	1.07	86.0	60	80	396	89.7	1.37	1.97	1.99	2.30	3
CINCINNATI MILACRON	12	26	5	15	0.36	1.38	34.2	12	66	214	81.2	1.10	1.69	NA	2.23	4
[illegible]	12	31	9	17	0.08	0.26	58.5	18	67	218	21.3	1.40	1.80	2.26	2.08	2
[illegible]	06	31	15	12	0.60	1.95	26.6	26	75	223	91.7	0.45	2.58*	1.06	3.01	0
LINCOLN ELECTRIC	12	25	15	9	0.40	1.63	22.0	NA	6	13	NA	2.19	2.62	3.95	3.00	3
NACCO INDUSTRIES	12	57	36	8	0.72	1.26	9.0	18	43	195	34.1	5.06	6.93	5.24	7.78	8
SNAP-ON	12	44	18	16	1.08	2.44	40.3	25	71	302	53.9	2.30	2.75	2.48	3.12	2
STANLEY WORKS	12	51	17	18	1.44	2.84	44.3	41	67	321	49.0	2.80	2.81	2.70	3.27	4

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Fund	Overall	3 yr	5 yr	10 yr
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Equity Income	★★★★★	★★★★★	★★★★	★★★★★
Growth & Income	★★★★	★★★★	★★★★	★★★
Growth Stock	★★★★	★★★★	★★★★	★★★
Mid-Cap Growth	★★★★★	★★★★★	–	–
New America Growth	★★★★	★★★★	★★★★★	★★★★
New Era	★★	★★★	★★	★★
New Horizons	★★★★	★★★★★	★★★★★	★★★
OTC	★★★	★★★★★	★★★★	★★
Science & Technology	★★★★★	★★★★★	★★★★★	–
Small-Cap Value	★★★★★	★★★★★	★★★★★	–
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DEQ028567

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT. MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	1996 ESTIMATES I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
(C) SPECIAL MACHINERY																
GROUP AVERAGE		**39**	**14**	**15**	**0.50**	**1.44**	**88.2**	**33**	**71**	**381**	**151.3**	**2.30**	**2.98**	**3.17**	**3.45**	**6**
AGCO	12	43	21	9	0.04	0.09	22.6	48	95	200	166.4	4.70(b)	4.77	8.00	5.48	1
APPLIED MATERIALS	10	49	9	19	0.00	0.00	178.3	144	19	617	591.0	1.26	2.56*	3.31	3.83	3
BRIGGS & STRATTON	06	42	15	12	1.04	2.50	28.9	27	71	356	80.3	3.55	3.62*	5.08	3.46	3
CASE	12	42	19	10	0.20	0.48	70.9	95	55	169	91.4	2.32	4.24	NA	4.33	8
CATERPILLAR	12	61	18	11	1.40	2.28	197.5	10	71	784	105.4	4.70	5.42	8.63	5.63	9
COLTEC INDUSTRIES	12	11	–7	9	0.00	0.00	69.9	–36	95	135	58.2	1.35	1.29	1.42	1.33	2
DEERE	10	33	12	9	0.80	2.42	261.9	51	89	726	104.2	2.34	3.85	2.60	3.06	5
DOVER	12	39	10	16	0.60	1.54	113.6	51	68	474	41.2	1.77	2.41	2.35	2.71	2
DRESSER INDUSTRIES	10	24	9	21	0.68	2.88	182.5	24	70	522	62.1	1.98	1.13	1.28	1.34	2
FMC	12	74	16	13	0.00	0.00	36.6	28	67	346	36.6	4.66	5.72	3.76	6.99	7
HARNISCHFEGER INDUSTRIES	10	34	12	15	0.40	1.18	48.6	95	69	313	100.3	0.74	2.23*	1.23	2.68	10
INGERSOLL-RAND	12	38	16	15	0.74	1.93	105.9	22	66	477	65.8	2.00	2.52	2.28	3.05	6
LAM RESEARCH	06	55	16	18	0.00	0.00	27.3	50	94	288	742.2	1.55(b)	3.06*	4.85	4.40	2
McDERMOTT INTERNATIONAL	03	18	13	39	1.00	5.52	54.2	–26	79	303	89.2	0.05	0.47	0.10	1.09	22
PENTAIR	12	50	24	18	0.80	1.61	18.4	18	65	157	58.3	2.52(b)	2.81	3.08	3.44	4
STEWART & STEVENSON SERVICES	01	23	14	11	0.32	1.39	33.0	–33	71	225	267.6	2.05	2.01	2.58	2.28	9
TIMKEN	12	40	26	11	1.20	2.97	31.3	15	71	302	54.5	2.21	3.62	2.71	4.47	10
TYCO INTERNATIONAL	06	31	11	22	0.20	0.64	152.7	37	43	492	75.4	1.35	1.44*	1.33	1.98	2
VARITY	01	39	20	11	0.00	0.00	41.0	1	83	354	84.9	2.61	3.48	2.50	3.97	4
(D) TEXTILES																
GROUP AVERAGE		**19**	**12**	**16**	**0.27**	**0.91**	**53.3**	**6**	**55**	**145**	**55.5**	**1.41**	**1.36**	**2.18**	**1.72**	**8**
BURLINGTON INDUSTRIES	09	14	9	13	0.00	0.00	64.9	37	67	129	36.3	1.46	1.05*	NA	1.27	4
COLLINS & AIKMAN	01	6	–5	5	0.00	0.00	70.5	–25	18	41	17.7	–0.39	1.32	NA	1.54	11
CONE MILLS	12	11	7	17	0.00	0.00	27.4	–5	54	92	35.0	1.19	0.68	1.55	1.05	5
FIELDCREST CANNON	12	20	26	18	0.00	0.00	8.9	–20	81	118	134.9	2.51(b)	1.11	2.68	2.02	20
MOHAWK INDUSTRIES	12	18	9	22	0.00	0.00	32.6	40	50	80	59.8	0.99	0.79	1.13	1.16	9
SHAW INDUSTRIES	12	16	5	28	0.30	1.94	135.7	3	61	227	85.5	0.91	0.55	0.82	0.87	10
SPRINGS INDUSTRIES	12	42	35	11	1.32	3.14	20.1	30	41	264	30.6	3.50	3.70	4.98	4.13	2
UNIFI	06	24	9	14	0.52	2.19	66.3	–9	66	206	44.3	1.08	1.67*	1.92	1.75	5
16 METALS & MINING																
INDUSTRY AVERAGE		**27**	**16**	**17**	**0.45**	**1.43**	**65.3**	**–3**	**59**	**242**	**97.8**	**1.85**	**2.90**	**2.19**	**3.06**	**35.**
(A) ALUMINUM																
GROUP AVERAGE		**41**	**22**	**14**	**0.58**	**0.99**	**85.7**	**26**	**63**	**343**	**103.2**	**0.66**	**3.46**	**1.44**	**5.11**	**14.**
ALUMAX	12	33	30	12	0.00	0.00	44.7	18	83	254	110.3	0.84	2.77	NA	4.55	14
ALUMINUM CO. OF AMERICA	12	59	24	12	0.90	1.54	177.2	34	79	666	120.0	2.48	4.72	1.17	6.24	10
KAISER ALUMINUM	12	15	1	22	0.00	0.00	58.3	35	12	46	81.7	–2.09	0.66	0.32	2.10	19
REYNOLDS METALS	12	58	33	10	1.40	2.42	62.6	19	76	406	100.8	1.42	5.70	2.84	7.53	15
(B) STEEL																
GROUP AVERAGE		**20**	**14**	**16**	**0.32**	**1.38**	**55.2**	**–13**	**60**	**193**	**91.3**	**2.15**	**2.32**	**2.26**	**2.14**	**45.**
AK STEEL HOLDING	12	35	25	4	0.60	1.73	26.3	13	77	126	171.0	8.30(b)	8.04	NA	5.70	21
ALLEGHENY LUDLUM	12	19	5	12	0.52	2.79	70.2	–1	47	150	60.0	0.26	1.60	0.76	1.78	14
ARMCO	12	6	–4	115	0.00	0.00	106.2	–12	70	231	49.6	0.57	0.05	NA	0.71	39.
BETHLEHEM STEEL	12	14	11	10	0.00	0.00	112.6	–20	75	302	146.5	0.35	1.36	NA	1.62	64.
BIRMINGHAM STEEL	06	15	16	9	0.40	2.69	28.5	–28	64	127	116.7	0.86	1.74*	1.26	1.27	15
COMMERCIAL METALS	08	24	20	9	0.48	2.04	15.3	–12	44	82	22.0	1.75	2.52*	2.26	3.08	10.
INLAND STEEL INDUSTRIES	12	26	16	10	0.10	0.38	48.7	–19	71	290	111.8	1.81	2.69	NA	2.99	30.
LTV	12	15	14	8	0.00	0.00	105.0	–13	74	232	93.3	1.29	1.77	3.86	1.57	70.
LUKENS	12	31	19	14	1.00	3.27	14.7	5	77	145	67.8	1.32(b)	2.24	1.57	3.12	10.
NATIONAL STEEL	12	13	11	6	0.00	0.00	43.3	1	45	71	77.4	4.33	2.06	NA	0.66	254.
NUCOR	12	50	15	16	0.28	0.56	87.5	–10	66	484	94.4	2.60	3.06	3.90	3.45	16.
OREGON STEEL MILLS	12	14	14	25	0.56	4.07	19.4	–12	69	116	68.7	0.60	0.54	0.37	1.06	21.
ROUGE STEEL	12	22	18	5	0.12	0.55	21.7	–24	32	64	34.9	5.21	4.16	NA	1.94	75.
USX-U.S. STEEL GROUP	12	33	16	8	1.00	3.07	82.7	0	62	387	136.6	2.33(b)	3.86	NA	3.90	48.
WEIRTON STEEL	12	4	4	7	0.00	0.00	42.0	–51	39	62	89.8	1.06	0.65	NA	0.74	18.
[illegible]	12	11	32	6	0.00	0.00	23.5	–28	51	100	139.5	2.54	1.82	4.64	1.27	52.
WORTHINGTON INDUSTRIES	05	20	7	15	0.44	2.24	90.7	–2	56	306	71.4	1.29	1.30	1.73	1.51	11.
[illegible] OTHER METALS																
GROUP AVERAGE		**36**	**18**	**19**	**0.73**	**1.89**	**80.2**	**7**	**53**	**314**	**112.6**	**1.82**	**4.18**	**2.46**	**4.29**	**18.**
[illegible]	12	35	42	7	0.80	2.26	42.5	25	79	324	127.6	1.53	5.44	3.28	5.04	28.
[illegible] MINERALS	12	28	27	6	0.80	2.91	92.9	6	62	502	86.7	1.59	4.44	3.20	3.91	19.
[illegible]	12	39	–17	61	0.09	0.23	28.1	–55	56	254	107.6	2.22	0.64	0.53	2.56	8.
FREEPORT-McMORAN COPPER & GOLD	12	27	2	26	0.90	3.32	202.0	25	1	18	40.2	0.38	1.05	0.52	1.53	17.
MAGM[illegible]YER	12	21	19	7	0.00	0.00	46.4	30	46	200	162.6	1.38(b)	3.26	1.61	3.29	20.
PHELPS DODGE	12	68	37	7	1.80	2.64	69.4	8	73	583	150.7	3.81	10.26	5.61	9.39	18.

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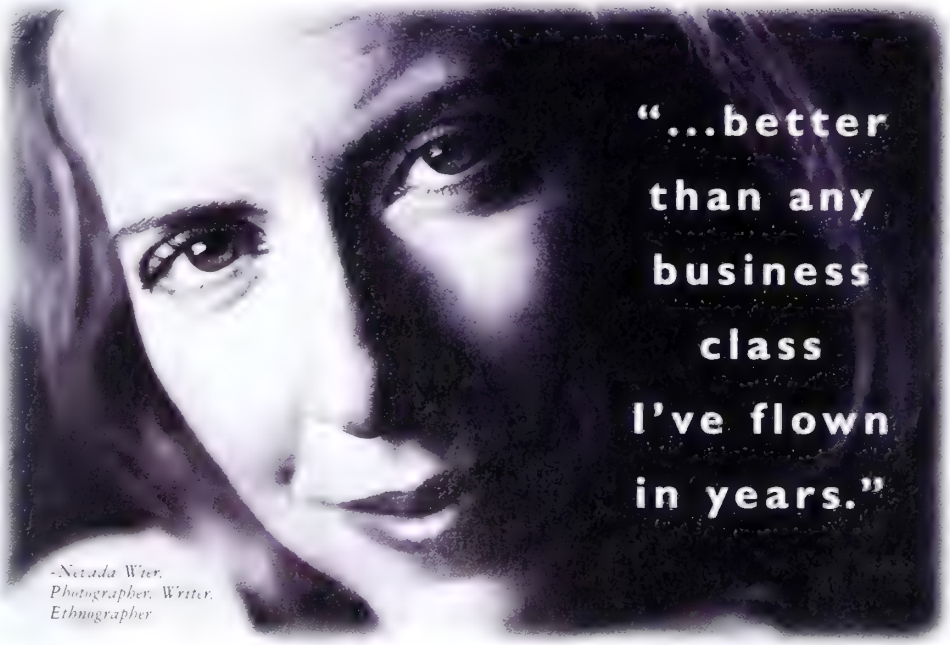

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	I/B/E/S 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYS I/B/E/S CONSENSUS	VARIATION %
17 NONBANK FINANCIAL																
INDUSTRY AVERAGE		46	28	16	0.87	1.90	95.7	44	61	318	62.4	2.42	3.31	4.05	4.09	5
(A) FINANCIAL SERVICES																
GROUP AVERAGE		48	21	15	0.93	1.83	126.4	51	66	416	71.4	2.46	3.40	4.79	4.04	6
ALEXANDER & ALEXANDER	12	22	9	17	0.10	0.46	44.3	19	72	248	34.9	–2.79	1.28	0.80	1.68	12
AMERICAN EXPRESS	12	43	14	14	0.90	2.12	487.4	42	64	935	69.5	2.68	3.11	4.82	3.52	3
AT&T CAPITAL	12	40	23	15	0.44	1.11	47.0	85	9	63	14.1	2.14	2.64	3.05	3.11	4
BEAR STEARNS	06	22	17	13	0.60(d)	2.76	117.6	48	75	252	66.4	2.75	1.70*	3.40	2.51	9
BENEFICIAL	12	51	26	14	1.88	3.70	53.0	31	67	377	57.8	3.28	3.57	3.87	5.02	2
BLOCK (H & R)	04	45	6	25	1.28	2.87	104.5	19	72	546	120.4	1.01	1.82	1.51	2.02	6
COUNTRYWIDE CREDIT INDUSTRIES	02	22	12	12	0.32	1.45	101.8	92	79	207	112.5	0.96	1.89	2.42	2.32	6
DEAN WITTER, DISCOVER	12	51	27	11	0.64	1.26	170.5	52	67	616	64.6	4.27(b)	4.85	6.16	5.43	2
EDWARDS (A. G.)	02	27	16	11	0.64	2.37	62.4	52	46	209	52.1	2.00	2.52	3.08	2.67	11
EQUIFAX	12	42	5	21	0.66	1.59	76.3	59	56	358	61.4	1.62	1.95	2.15	2.28	2
FANNIE MAE	12	110	39	13	2.72	2.48	272.8	50	85	1270	76.8	7.80	8.59	10.20	9.71	1
FEDERAL HOME LOAN MORTGAGE	12	77	28	13	1.20	1.56	180.8	53	80	708	60.3	5.32	5.71	7.15	6.59	1
FIRST AMERICAN FINANCIAL	12	23	25	31	0.60	2.62	11.4	33	61	67	32.1	1.66	0.73	3.07	2.14	19
FIRST USA	06	46	12	17	0.24	0.52	56.8	40	87	323	137.0	1.69	2.74*	10.66	3.76	6
FRANKLIN RESOURCES	09	53	13	16	0.40	0.76	81.0	47	34	274	37.1	3.00	3.24*	4.28	3.60	3
HOUSEHOLD INTERNATIONAL	12	63	26	15	1.36	2.18	98.1	71	96	490	70.8	3.52	4.25	4.27	5.07	2
LEHMAN BROTHERS HOLDINGS	11	23	28	13	0.20	0.88	104.6	53	71	308	84.4	0.81	1.80	NA	2.24	10
MARSH & McLENNAN	12	87	22	16	3.20	3.69	72.6	9	69	487	41.2	5.19	5.50	5.69	6.09	2
MERRILL LYNCH	12	56	30	11	1.04	1.87	179.9	54	56	481	106.2	4.75	5.27	10.42	5.83	6
MORGAN STANLEY GROUP	11	86	54	13	1.28	1.48	77.6	51	61	303	69.4	4.03(b)	6.77	7.40	7.87	12
PAINEWEBBER GROUP	12	22	15	14	0.48	2.16	98.3	47	42	167	60.8	0.41(b)	1.63	0.88	2.05	13
SALLIE MAE	12	70	15	15	1.48	2.11	62.9	85	100	328	140.5	5.03	4.75	6.47	5.59	5
SALOMON	12	36	35	12	0.64	1.76	106.4	–2	74	401	87.8	–4.31	2.95	4.96	3.54	15
SCHWAB (CHARLES)	12	24	3	25	0.16	0.66	174.0	112	47	226	76.4	0.77	0.97	1.96	1.10	7
TRAVELERS GROUP	12	60	31	13	0.80	1.34	318.3	85	73	746	51.2	3.86	4.66	6.25	5.16	3
(B) INSURANCE																
GROUP AVERAGE		48	33	17	0.89	1.95	83.5	38	57	280	53.9	2.68	3.41	3.74	4.29	5
AETNA LIFE & CASUALTY	12	73	60	29	2.76	3.76	114.3	58	79	553	91.3	4.14	2.56	2.64	7.45	5
AFLAC	12	41	22	12	0.52	1.28	94.8	21	55	371	50.4	2.84	3.51	4.44	3.87	2
ALLMERICA PROPERTY & CASUALTY	12	26	23	11	0.16	0.63	61.9	51	89	127	14.6	1.64	2.26	3.61	2.63	7
ALLSTATE	12	41	24	12	0.78	1.90	448.7	72	97	289	41.0	1.08	3.51	NA	3.85	4
AMERICAN BANKERS INSURANCE GROUP	12	36	23	11	0.76	2.10	20.1	51	66	150	87.8	2.74	3.38	3.60	3.70	3
AMERICAN FINANCIAL GROUP	12	30	19	12	1.00	3.33	52.7	32	23	119	27.6	0.02	2.49	0.38	3.01	18
AMERICAN GENERAL	12	34	27	10	1.24	3.66	204.5	21	72	610	42.6	2.45	3.34	2.55	3.61	3
AMERICAN INTERNATIONAL GROUP	12	90	38	17	0.34	0.38	474.2	38	55	1244	37.1	4.58	5.14	5.60	5.82	1
AMERICAN RE	12	41	21	14	0.08	0.19	47.1	28	32	117	33.9	2.01	3.02	NA	3.57	3
AON	12	47	24	14	1.36	2.89	107.1	46	45	310	26.2	3.14	3.43	3.53	3.84	2
BANKERS LIFE HOLDING	12	18	18	8	0.60	3.29	52.8	–4	12	68	72.0	2.49	2.28	2.84	2.46	3
BERKLEY (W. R.)	12	45	40	18	0.48	1.06	16.7	20	77	126	90.9	1.44	2.48	2.13	3.60	8
CHUBB	12	97	55	14	1.96	2.02	87.0	26	69	634	60.0	5.95	6.94	5.87	7.71	2
CIGNA	12	110	95	162	3.04	2.76	72.1	73	91	529	91.3	7.66	0.68	1.47	11.49	7
CINCINNATI FINANCIAL	12	62	43	16	1.36	2.19	53.0	27	34	163	22.9	3.72	3.87	4.51	4.28	2
CITIZENS	12	19	17	10	0.20	1.07	36.1	10	11	44	7.0	1.15	1.93	1.31	2.12	3
CNA FINANCIAL	12	116	95	15	0.00	0.00	61.8	79	99	107	8.0	0.51	7.94	1.94	9.85	12
CONSECO	12	57	33	12	0.08	0.14	20.2	21	49	103	156.6	5.00(b)	4.82	9.11	7.06	3
EQUITABLE	12	24	16	15	0.20	0.82	184.3	34	27	173	40.4	1.53(b)	1.67	NA	2.04	5
FIRST COLONY	12	26	25	11	0.40	1.54	49.3	16	56	184	34.6	2.10	2.30	2.39	2.62	1
GEICO	12	69	26	21	1.08	1.56	67.5	40	74	152	14.3	2.98	3.38	3.61	3.76	1
GENERAL RE	12	150	74	16	1.96	1.31	82.3	22	84	743	52.9	7.97	9.33	9.32	10.47	2
JEFFERSON-PILOT	12	71	41	16	1.92	2.70	47.5	34	39	328	34.0	4.73	4.39	5.33	5.31	4
JOHN ALDEN FINANCIAL	12	21	19	10	0.44	2.13	25.2	–25	65	133	214.4	2.95	2.05	2.28	2.50	5
KEMPER	12	49	35	13	0.92	1.87	34.7	31	46	173	222.2	1.80	3.87	5.18	4.38	4
LIBERTY FINANCIAL	12	29	32	10	0.60	2.05	27.5	NA	6	32	NA	2.15	2.90	NA	3.23	1
LINCOLN NATIONAL	12	47	42	12	1.72	3.68	104.0	47	66	442	36.2	3.37	3.94	4.86	4.62	4
LOEWS	12	77	59	11	0.50	0.65	117.8	77	50	385	43.7	2.23	6.78	3.84	8.14	10
OHIO CASUALTY	12	38	29	14	1.52	4.00	35.6	33	50	152	51.9	2.70	2.73	2.79	3.35	6
OLD REPUBLIC INTERNATIONAL	12	34	29	12	0.52	1.51	52.2	64	71	181	34.3	2.44(b)	2.84	3.05	3.28	3
PAUL REVERE	12	21	28	14	0.24	1.15	45.0	40	11	53	11.2	2.04	1.46	1.59	1.85	9
PROGRESSIVE	12	45	18	16	0.22	0.49	72.1	29	63	242	35.1	3.59	2.81	5.55	3.28	4
PROTECTIVE LIFE	12	29	16	11	0.64	2.20	28.8	26	60	163	25.5	2.57	2.66	3.55	2.97	1
PROVIDENT LIFE & ACCIDENT	12	28	32	12	0.72	2.56	45.4	29	45	138	18.7	2.71	2.42	2.23	2.97	7
PROVIDIAN	12	40	29	10	0.90	2.24	95.5	27	66	481	38.7	3.02	4.07	4.59	4.50	1
RELIANCE GROUP HOLDINGS	12	9	5	13	0.32	3.61	113.2	69	28	110	39.3	0.38	0.71	0.41	0.87	4
RELIASTAR FINANCIAL	12	43	33	11	1.00	2.31	36.2	81	69	226	49.9	3.08(b)	4.01	3.94	4.49	3
SAFECO	12	36	29	13	1.06	2.99	126.0	37	69	409	72.9	2.50	2.78	3.11	3.10	3
ST. PAUL	12	56	41	11	1.60	2.86	84.6	26	78	539	62.5	5.12	5.04	5.35	5.55	2
SUNAMERICA	09	47	16	17	0.60	1.27	54.3	95	43	233	67.3	2.39	2.84*	4.14	3.66	3
TIG HOLDINGS	12	27	21	14	0.20	0.74	61.3	41	93	180	57.5	0.79	2.00	NA	2.42	6
TORCHMARK	12	43	21	11	1.16	2.73	71.6	22	56	384	40.3	3.72	3.97	4.34	4.36	2
TRANSAMERICA	12	77	53	13	2.00	2.61	68.7	53	60	407	31.0	5.46	5.87	8.20	6.62	2
TRANSATLANTIC HOLDINGS	12	69	39	13	0.40	0.58	22.9	23	86	161	24.2	4.44	5.28	5.78	6.05	3
20TH CENTURY INDUSTRIES	12	18	3	26	0.00	0.00	51.5	74	36	95	39.2	–9.69	0.71	0.82	1.21	16

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
UNITRIN	12	47	39	15	2.00	4.30	39.3	–10	29	131	56.4	2.96	3.15	2.98	3.72	6
UNUM	12	54	29	15	1.06	1.96	72.8	44	71	408	66.9	2.09	3.56	3.21	4.32	2
USF&G	12	17	13	13	0.20	1.16	112.4	49	47	344	77.4	1.86(b)	1.28	3.19	1.57	10
USLIFE	12	29	35	10	0.93	3.23	34.4	25	71	280	32.6	2.79	2.91	3.32	3.14	2
(C) SAVINGS & LOAN																
GROUP AVERAGE		**29**	**24**	**13**	**0.53**	**1.76**	**71.2**	**60**	**75**	**237**	**88.9**	**0.42**	**2.28**	**3.09**	**2.83**	**6**
AHMANSON (H. F.)	12	27	26	15	0.88	3.29	117.5	66	94	392	81.9	1.58	1.74	1.58	2.58	7
CALIFORNIA FEDERAL BANK	12	15	12	12	0.00	0.00	49.2	41	65	121	74.3	–3.82	1.27	NA	1.73	13
GLENDALE FEDERAL BANK	06	16	23	13	0.00	0.00	40.7	68	83	135	135.9	–6.48	1.28*	NA	1.00	5
GOLDEN WEST FINANCIAL	12	51	37	13	0.38	0.74	58.7	45	66	295	46.5	3.71	3.92	4.40	5.00	4
GREAT WESTERN FINANCIAL	12	26	19	16	0.92	3.61	136.6	62	85	381	76.4	1.69	1.56	0.89	2.42	8
STANDARD FEDERAL BANCORP	12	38	28	11	0.72	1.88	31.4	59	70	173	98.4	3.70	3.65	5.48	4.15	4
WASHINGTON MUTUAL	12	28	23	11	0.80	2.83	64.6	75	60	161	108.7	2.54	2.57	NA	2.95	3
18 OFFICE EQUIPMENT & COMPUTERS																
INDUSTRY AVERAGE		**39**	**12**	**31**	**0.21**	**0.50**	**131.6**	**83**	**58**	**385**	**214.5**	**0.97**	**1.62**	**2.67**	**2.34**	**12**
(A) BUSINESS MACHINES & SERVICES																
GROUP AVERAGE		**20**	**8**	**22**	**0.41**	**1.69**	**45.4**	**16**	**52**	**177**	**146.1**	**0.96**	**1.03**	**1.43**	**1.45**	**12**
COMPUCOM SYSTEMS	12	8	2	19	0.00	0.00	34.5	166	6	32	96.2	0.34(b)	0.43	0.56	0.54	11
DELUXE	12	28	10	17	1.48	5.36	82.5	5	65	404	43.2	1.71	1.67	1.58	1.89	5
EGGHEAD	03	8	8	NM	0.00	0.00	17.3	31	65	61	227.4	0.15	–0.09	NA	0.60	N
HON INDUSTRIES	12	28	7	16	0.48	1.71	30.4	4	28	86	20.2	1.74	1.74	1.89	2.00	N
INTELLIGENT ELECTRONICS	01	7	5	NM	0.40	6.15	34.5	–15	50	125	194.5	0.23	–0.15	NA	0.77	20
MERISEL	12	5	8	51	0.00	0.00	29.8	–42	44	83	227.2	0.38	0.09	0.45	0.59	28
MICROAGE	10	9	12	14	0.00	0.00	14.3	–27	50	71	300.8	1.22	0.60	0.87	1.06	17
MILLER (HERMAN)	05	32	12	16	0.52	1.64	24.9	21	58	130	98.6	0.18	1.99	1.03	2.40	5
PITNEY BOWES	12	45	14	17	1.20	2.68	151.6	41	74	554	44.6	2.21	2.66	3.05	2.99	2
REYNOLDS & REYNOLDS	09	38	8	21	0.40	1.05	41.7	53	72	287	47.4	1.51	1.85*	2.47	2.17	0
TECH DATA	01	17	7	31	0.00	0.00	37.8	–1	58	117	306.7	0.91	0.54	1.01	0.98	18
(B) COMPUTERS & PERIPHERALS																
GROUP AVERAGE		**38**	**15**	**35**	**0.21**	**0.22**	**137.5**	**109**	**59**	**417**	**270.5**	**0.87**	**1.99**	**2.96**	**2.87**	**16**
AMDAHL	12	10	8	11	0.00	0.00	118.9	–12	44	279	73.5	0.63	0.86	0.73	0.96	11
APPLE COMPUTER	09	38	23	11	0.48	1.26	121.9	–1	60	545	495.9	2.61	3.45*	2.05	3.24	13
AST RESEARCH	06	9	9	NM	0.00	0.00	44.7	–14	42	116	228.4	0.96	–3.07*	NA	–3.84	28
COMPAQ COMPUTER	12	49	17	13	0.00	0.00	265.8	27	72	856	284.7	3.23	3.78	4.47	4.62	5
CONNER PERIPHERALS	12	23	7	24	0.00	0.00	53.5	143	55	131	295.3	1.77(b)	0.93	1.02	1.39	14
CRAY RESEARCH	12	24	25	NM	0.00	0.00	25.4	53	76	246	131.8	2.16	–0.84	NA	1.45	31
DATA GENERAL	09	12	7	NM	0.00	0.00	37.3	23	73	214	122.3	–2.45	–1.23*	NA	0.33	45
DELL COMPUTER	01	44	9	16	0.00	0.00	91.5	153	67	255	792.9	1.69	2.76	3.81	3.44	5
DIGITAL EQUIPMENT	06	59	24	393	0.00	0.00	150.8	82	65	481	221.1	–15.43	0.15*	NA	3.53	13
EMC	12	18	4	13	0.00	0.00	214.6	–12	62	471	278.9	1.18	1.38	3.77	1.69	7
GATEWAY 2000	12	28	7	13	0.00	0.00	72.6	28	20	108	208.8	1.22	2.16	1.91	2.68	5
HEWLETT-PACKARD	10	83	23	18	0.80	0.96	511.8	67	58	1270	78.3	3.07	4.63*	5.01	5.46	4
INTERNATIONAL BUSINESS MACHINES	12	97	38	9	1.00	1.04	558.3	25	52	1391	129.2	5.02	10.83	NA	12.27	6
MAXTOR	03	6	1	NM	0.00	0.00	52.5	19	24	59	208.4	–1.63	–0.73	NA	0.43	88
MICRON ELECTRONICS	08	15	2	20	0.00	0.00	91.4	NM	2	29	101.6	–0.74	0.74*	NA	1.04	31
QUANTUM	03	19	13	12	0.00	0.00	51.7	39	74	209	609.8	1.52(b)	1.55	0.91	3.09	16
SEAGATE TECHNOLOGY	06	53	23	17	0.00	0.00	72.9	125	91	345	284.6	2.83(b)	3.06*	3.59	5.21	5
SILICON GRAPHICS	06	36	9	28	0.00	0.00	161.5	31	73	583	143.3	0.91	1.28*	1.44	1.74	3
STORAGE TECHNOLOGY	12	25	24	22	0.00	0.00	52.9	1	48	166	280.6	0.66	1.12	0.56	2.42	12
SUN MICROSYSTEMS	06	84	22	23	0.00	0.00	98.5	145	80	594	562.7	2.02	3.61*	3.26	4.84	5
TANDEM COMPUTERS	09	13	9	14	0.00	0.00	116.7	–26	72	375	154.2	1.50	0.91*	1.21	1.20	12
3COM	05	46	4	28	0.00	0.00	144.0	94	83	386	506.8	0.87	1.62	4.66	2.17	5
UNISYS	12	7	6	NM	0.00	0.00	171.4	–24	41	289	126.4	–0.07	–0.67	NA	0.45	26
WESTERN DIGITAL	06	15	10	6	0.00	0.00	48.6	–3	64	174	358.7	1.77	2.56*	NA	1.31	9
XEROX	[illegible]	137	48	15	3.00	2.19	107.9	41	84	852	84.3	6.44(b)	8.89	8.96	10.53	4
(C) COMPUTER SOFTWARE & SERVICES																
GROUP AVERAGE		**50**	**10**	**31**	**0.10**	**0.17**	**176.1**	**88**	**59**	**468**	**178.4**	**1.13**	**1.48**	**3.14**	**2.14**	**5**
AMERIDATA TECHNOLOGIES	12	11	7	12	0.00	0.00	21.0	17	25	32	159.8	0.78	0.87	9.41	1.06	N
AUTOMATIC DATA PROCESSING	06	80	15	29	0.70	0.88	144.1	37	72	724	46.7	2.37	2.77*	3.10	3.19	0
BAY NETWORKS	06	45	4	61	0.00	0.00	172.4	141	73	367	512.7	0.63	0.73*	2.33	1.46	3
CABLETRON SYSTEMS	02	83	10	28	0.00	0.00	71.8	78	65	430	172.4	2.27	2.98	4.44	3.60	4
CERIDIAN	12	42	6	24	0.00	0.00	46.6	60	89	378	124.1	1.40(b)	1.77	NA	2.19	3
CISCO SYSTEMS	07	84	6	55	0.00	0.00	272.2	150	80	897	353.0	1.19	1.52*	3.81	2.58	2
COMDISCO	09	34	19	13	0.28	0.83	35.0	41	50	171	44.6	1.16	2.60*	1.67	2.91	2
[illegible]	06	37	13	31	0.00	0.00	18.9	152	73	133	345.4	–0.92	1.21*	NA	1.71	4
COMPUTER ASSOCIATES INTERNATIONAL	03	66	4	23	0.13	0.20	241.6	104	61	674	109.4	1.71	2.86	3.74	3.44	4
COMPUTER SCIENCES	03	73	22	29	0.00	0.00	55.6	56	81	424	83.2	2.09	2.48	2.69	2.96	3
ELECTRONIC DATA SYSTEMS	12	51	10	26	0.52	1.03	483.7	32	37	639	36.5	1.71	1.96	2.21	2.27	0
FIRST DATA	12	71	15	32	0.12	0.17	118.8	65	89	618	83.7	1.87	2.20	2.61	2.74	1
INTERGRAPH	12	17	11	NM	0.00	0.00	46.3	119	42	218	209.3	–1.56	–0.95	NA	0.78	11
MICROSOFT	06	87	10	38	0.00	0.00	588.0	44	38	1228	187.2	1.88	2.32*	3.43	3.18	3
NOVELL	10	17	5	19	0.00	0.00	370.2	0	48	560	278.3	0.56	0.91	0.98	1.04	12

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INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST.	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE 1995 ANALYST EST.	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
ORACLE	05	45	3	33	0.00	0.00	434.6	56	61	779	176.7	1.00	1.38	2.88	1.83	5
SAFEGUARD SCIENTIFICS	12	50	9	46	0.00	0.00	14.6	341	18	51	119.7	1.03	1.08	0.70	1.19	N
WANG LABORATORIES	06	18	6	NM	0.00	0.00	33.9	87	67	106	169.1	NA	–2.02*	NA	0.33	27
19 PAPER & FOREST PRODUCTS																
INDUSTRY AVERAGE		**42**	**20**	**12**	**0.88**	**1.94**	**88.7**	**29**	**59**	**386**	**96.3**	**1.04**	**4.51**	**3.05**	**5.24**	**10**
(A) FOREST PRODUCTS																
GROUP AVERAGE		**42**	**23**	**9**	**0.90**	**1.90**	**58.1**	**29**	**56**	**351**	**111.2**	**1.66**	**5.68**	**4.13**	**6.03**	**12**
BOISE CASCADE	12	37	27	7	0.60	1.61	48.1	75	76	385	188.9	–3.08	5.52	NA	6.07	13
GEORGIA-PACIFIC	12	78	34	6	2.00	2.57	90.8	9	63	684	132.9	3.66	12.27	NA	12.41	13
LOUISIANA-PACIFIC	12	27	15	14	0.56	2.07	107.9	–5	46	389	96.1	3.15	1.99	4.08	2.20	22
RAYONIER	12	38	25	10	1.00	2.61	29.6	26	77	283	69.1	2.36	3.98	NA	4.74	3
UNIVERSAL FOREST PRODUCTS	12	9	5	11	0.05(c)	0.56	17.0	38	10	26	51.0	0.61	0.80	1.16	0.92	N
WILLAMETTE INDUSTRIES	12	61	31	6	1.20	1.98	55.3	28	61	337	129.1	3.23	9.54	7.16	9.82	11
(B) PAPER																
GROUP AVERAGE		**42**	**19**	**13**	**0.87**	**1.96**	**101.9**	**29**	**60**	**401**	**89.4**	**0.78**	**4.01**	**2.75**	**4.90**	**9**
BOWATER	12	40	21	6	0.60	1.51	38.8	58	90	277	238.3	–0.59	6.73	NA	8.46	10
CHAMPION INTERNATIONAL	12	47	33	6	0.20	0.42	95.2	32	80	505	153.2	0.38(b)	7.78	2.59	9.05	12
CHESAPEAKE	12	30	18	7	0.80	2.71	23.8	–10	67	208	60.2	1.58	4.08	2.74	4.46	4
CONSOLIDATED PAPERS	12	62	24	12	1.48	2.39	44.4	38	27	195	30.3	1.97	5.16	2.79	6.84	10
FORT HOWARD	12	20	–29	33	0.00	0.00	63.4	NA	45	95	NA	–6.02	0.61	NA	1.70	10
INTERNATIONAL PAPER	12	38	28	8	1.00	2.61	254.0	2	74	803	111.8	1.73	4.75	2.47	5.37	11
JAMES RIVER CORP. OF VIRGINIA	12	32	18	22	0.60	1.90	84.6	61	68	362	121.2	–0.72	1.46	NA	2.81	14
KIMBERLY-CLARK	12	77	18	20	1.80	2.35	160.4	53	63	702	56.5	3.33	3.93	3.85	4.75	6
MANVILLE	12	13	8	18	0.00	0.00	122.9	40	16	81	14.8	0.33	0.69	0.38	0.94	N
MEAD	12	57	40	9	1.12	1.96	53.8	8	68	442	94.2	1.52	6.18	3.90	6.90	6
POTLATCH	12	40	33	11	1.66	4.11	29.1	8	48	260	47.4	1.68	3.73	2.14	4.48	15
SCOTT PAPER	12	57	13	17	0.40	0.70	152.2	67	74	566	136.3	1.77	3.30	3.32	3.98	8
WESTVACO	10	27	21	10	0.88	3.21	101.5	5	62	376	36.6	1.03	2.80*	1.36	3.36	5
WEYERHAEUSER	12	45	22	9	1.60	3.54	202.0	19	59	745	61.3	2.86	4.95	4.74	5.47	8
20 PUBLISHING & BROADCASTING																
INDUSTRY AVERAGE		**62**	**12**	**31**	**0.98**	**1.45**	**173.8**	**25**	**52**	**415**	**50.8**	**1.72**	**1.92**	**3.68**	**2.35**	**71**
(A) BROADCASTING																
GROUP AVERAGE		**49**	**–11**	**45**	**0.07**	**0.18**	**288.8**	**35**	**50**	**440**	**65.4**	**–1.88**	**–1.02**	**2.98**	**–0.39**	**216**
CABLEVISION SYSTEMS	12	56	–87	NM	0.00	0.00	23.9	11	37	101	43.5	–13.72	–10.28	NA	–8.39	27
CAPITAL CITIES/ABC	12	124	30	24	0.20	0.16	153.9	45	80	854	50.8	4.42	5.18	5.36	5.94	4
COMCAST	12	20	–3	NM	0.09(c)	0.47	239.9	26	64	392	122.7	–0.32	–0.25	NA	–0.11	190
TELE-COMMUNICATIONS	12	19	6	NM	0.00	0.00	820.5	21	50	735	92.4	0.07	–0.20	NA	–0.02	850
TURNER BROADCASTING	12	28	1	65	0.07	0.25	206.0	71	18	119	17.5	0.16	0.43	0.59	0.62	8
(B) PUBLISHING																
GROUP AVERAGE		**66**	**20**	**29**	**1.30**	**1.91**	**132.8**	**21**	**52**	**405**	**45.2**	**3.00**	**3.05**	**3.80**	**3.41**	**15**
DOW JONES	12	38	16	19	0.92	2.40	97.1	24	38	308	28.9	1.83	1.98	NA	2.23	2
DUN & BRADSTREET	12	62	8	16	2.64	4.23	169.3	13	75	767	47.3	3.70	3.81	3.78	4.17	2
GANNETT	12	61	14	18	1.40	2.30	140.2	15	68	658	58.6	3.23	3.39	3.70	3.67	3
KNIGHT-RIDDER	12	64	22	24	1.48	2.30	48.7	17	67	339	62.3	3.15	2.66	2.80	3.55	5
McGRAW-HILL† †	12	84	18	NA	2.40	2.87	49.9	26	64	497	45.7	4.10	† †	2.19	† †	†
† †Because Business Week is owned by The McGraw-Hill Companies, the Scoreboard does not include forecasts of the company's earnings.																
MEREDITH	06	39	9	27	0.40	1.02	27.5	70	53	255	44.5	0.96	1.44*	1.96	1.58	6
NEW YORK TIMES	12	30	16	21	0.56	1.90	95.8	30	50	307	40.5	2.05	1.40	0.94	1.60	5
READER'S DIGEST ASSOCIATION	06	50	6	21	1.80	3.58	108.2	–1	33	263	36.2	2.34	2.35*	2.75	2.51	5
SCRIPPS (E. W.)	12	41	15	24	0.52	1.28	80.0	35	26	117	13.9	1.61	1.67	2.47	1.90	5
TIME WARNER	12	40	4	NM	0.36	0.90	384.2	15	56	794	66.7	–0.27	–0.40	NA	–0.29	131
TIMES MIRROR	12	32	17	41	0.24	0.74	112.2	–10	44	348	75.9	0.98	0.79	0.81	1.23	11
TRIBUNE	12	65	20	18	1.12	1.73	63.6	13	54	433	52.9	3.07(b)	3.67	4.38	3.99	4
US WEST MEDIA GROUP	12	18	10	95	0.00	0.00	470.7	NA	NA	NA	NA	0.61	0.19	NA	0.27	18
WASHINGTON POST	12	304	102	18	4.40	1.45	11.0	22	51	179	14.7	14.65	16.67	16.05	17.93	3
21 SERVICE INDUSTRIES																
INDUSTRY AVERAGE		**32**	**12**	**18**	**0.45**	**1.46**	**67.4**	**26**	**60**	**265**	**66.5**	**1.06**	**1.84**	**2.18**	**2.23**	**8.**
(A) CONSTRUCTION & ENGINEERING																
GROUP AVERAGE		**31**	**10**	**20**	**0.39**	**1.16**	**46.0**	**19**	**60**	**291**	**102.2**	**–1.29**	**1.16**	**1.88**	**1.64**	**30.**
EG&G	12	19	8	19	0.56(c)	2.91	52.7	30	63	251	49.0	–0.58	1.00	1.07	1.24	7.
FLUOR	10	65	16	23	0.60	0.92	83.0	52	65	568	72.4	2.32	2.78*	2.82	3.14	2.
[illegible]	12	40	14	19	0.78	1.97	35.9	33	65	326	93.9	1.83	2.06	2.36	2.40	3.
JACOBS ENGINEERING GROUP	09	24	9	19	0.00	0.00	25.3	32	48	126	39.6	0.75	1.27*	1.27	1.49	2.
[illegible]	12	6	0	NM	0.00	0.00	33.1	–53	57	186	255.9	–10.75	–1.32	NA	–0.08	137.
[illegible] DISTRIBUTION																
GROUP AVERAGE		**32**	**14**	**16**	**0.46**	**1.51**	**51.9**	**30**	**53**	**222**	**55.9**	**1.40**	**2.09**	**2.55**	**2.48**	**4.**
ARROW ELECTRONICS	12	47	22	11	0.00	0.00	46.7	31	93	280	105.3	2.40	4.13	8.12	4.86	4.
AVNET	06	47	32	14	0.60	1.28	43.3	35	77	310	88.4	2.16	3.32*	3.10	4.34	4.
BEARINGS	06	38	21	17	0.84	2.19	7.8	16	71	91	34.8	1.68	2.20*	2.07	2.89	6.
BOISE CASCADE OFFICE PRODUCTS	12	37	10	28	0.00	0.00	30.7	NA	15	53	NA	NA	1.33	NA	1.66	2.

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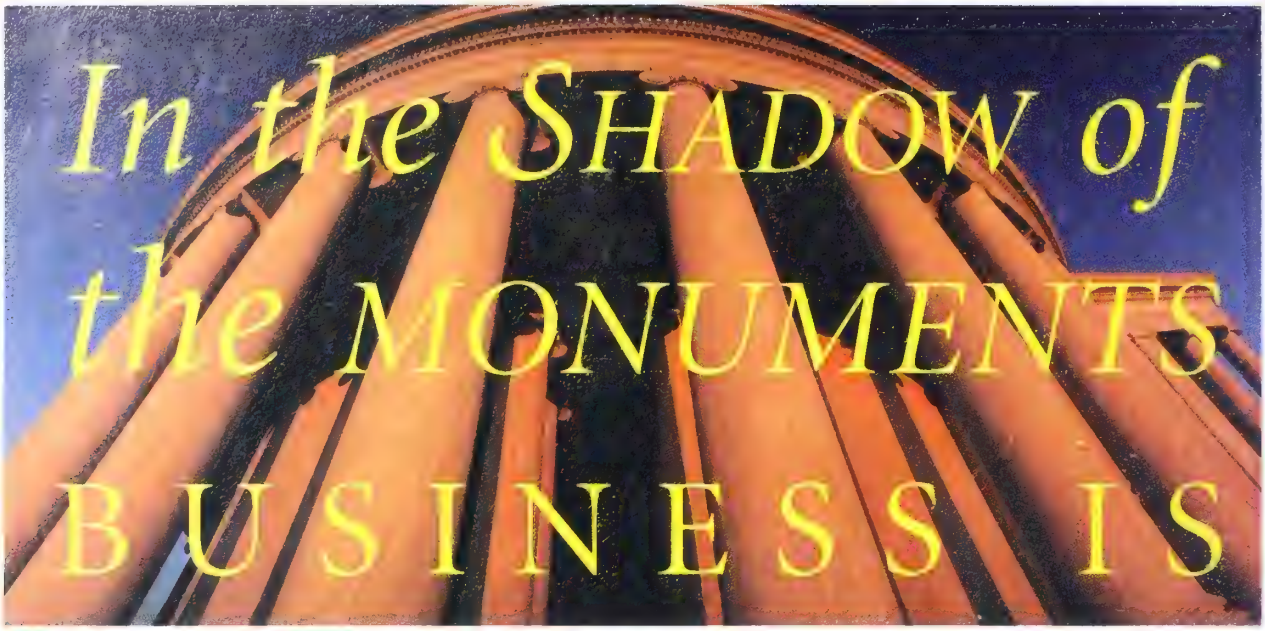
INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURNOVER %	EARNINGS PER SHARE 1994 ACTUAL	1996 ESTIMATES I/B/E/S 1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYST I/B/E/S CONSENSUS	1996 ESTIMATES FROM ANALYST VARIATION %
CRANE	12	34	12	14	0.75	2.20	30.5	29	50	253	49.4	1.86	2.44	2.07	2.82	3
ENRON	12	38	12	18	0.85	2.27	253.1	24	54	707	45.2	1.80	2.07	2.44	2.39	3
FISHER SCIENTIFIC INTERNATIONAL	12	33	14	16	0.08	0.25	16.2	33	86	163	101.5	2.00(b)	2.01	3.15	2.40	3
GENUINE PARTS	12	41	13	16	1.26	3.11	122.8	13	62	480	33.5	2.33	2.53	2.66	2.81	1
GRAINGER (W. W.)	12	67	22	18	0.92	1.38	50.8	16	63	467	54.1	2.50	3.67	3.47	4.09	2
HUGHES SUPPLY	01	26	23	12	0.28	1.07	6.3	54	48	61	35.5	1.79	2.17	3.12	2.38	3
KAMAN	12	12	8	12	0.44	3.83	18.4	6	49	92	49.1	–0.93	0.99	0.96	1.15	4
PIONEER-STANDARD ELECTRONICS	03	15	6	12	0.12	0.81	23.2	46	68	123	87.4	1.09	1.27	1.75	1.48	6
PREMIER-INDUSTRIAL	05	25	6	17	0.44	1.77	83.1	3	16	139	12.6	1.28	1.45	1.57	1.65	3
REXEL	12	14	7	17	0.00	0.00	24.1	130	28	68	75.5	0.39	0.78	0.68	0.94	5
UNIVAR	02	12	9	13	0.30	2.45	21.7	–11	17	48	10.3	–0.76	0.94	0.48	1.35	17
(C) POLLUTION CONTROL																
GROUP AVERAGE		**30**	**11**	**16**	**0.64**	**2.15**	**354.9**	**14**	**64**	**805**	**74.8**	**1.57**	**1.88**	**1.74**	**2.09**	**2**
BROWNING-FERRIS INDUSTRIES	09	30	13	16	0.68	2.26	213.0	15	69	692	90.3	1.52	1.93(b)	1.86	2.13	3
WMX TECHNOLOGIES	12	30	10	16	0.60	2.03	496.9	13	60	918	59.3	1.62	1.82	1.63	2.04	2
(D) PRINTING & ADVERTISING																
GROUP AVERAGE		**43**	**12**	**18**	**0.68**	**1.45**	**61.8**	**36**	**73**	**321**	**51.8**	**1.95**	**2.34**	**2.37**	**2.67**	**2**
ADVO	09	27	6	20	0.10	0.38	20.8	54	64	110	63.5	1.05	1.33(b)	0.91	1.50	4
BANTA	12	44	17	17	0.56	1.28	20.2	45	72	224	84.5	2.33	2.60	2.91	2.94	1
DONNELLEY (R. R.) & SONS	12	38	13	19	0.72	1.88	153.6	31	74	530	30.0	1.75	2.01	1.88	2.30	1
INTERPUBLIC GROUP	12	38	9	18	0.62	1.62	78.2	20	80	445	39.1	1.53	2.16	2.19	2.47	2
OMNICOM GROUP	12	67	16	18	1.40	2.10	36.3	30	77	297	42.1	3.07(b)	3.62	3.96	4.14	0
(E) OTHER SERVICES																
GROUP AVERAGE		**27**	**10**	**19**	**0.34**	**1.43**	**51.5**	**22**	**61**	**199**	**68.6**	**1.18**	**1.63**	**1.83**	**2.02**	**6**
BORG-WARNER SECURITY	12	12	2	36	0.00	0.00	23.2	22	72	63	33.9	0.56	0.33	NA	0.90	15
CDI	12	19	8	16	0.00	0.00	19.7	–7	33	88	56.4	1.13	1.16	1.09	1.63	9
CUC INTERNATIONAL	01	38	3	44	0.00	0.00	178.3	78	94	486	55.6	0.67	0.86	1.40	1.09	1
HANDLEMAN	04	6	9	10	0.44	7.04	33.6	–45	73	237	79.6	0.84	0.62	0.71	1.05	20
HEALTH SYSTEMS INTERNATIONAL	12	33	5	16	0.00	0.00	49.6	9	16	90	49.8	1.77	2.08	1.45	2.38	4
INACOM	12	13	14	13	0.00	0.00	9.9	91	68	60	197.0	–0.22	1.03	1.02	1.45	6
KELLY SERVICES	12	28	12	15	0.80	2.91	38.0	0	43	166	72.8	1.61	1.84	1.58	2.11	3
MANPOWER	12	27	4	16	0.14	0.52	74.3	–5	96	290	98.1	1.12	1.63	NA	2.01	3
OLSTEN	12	40	11	20	0.32	0.80	42.8	30	61	265	67.8	1.61(b)	2.01	2.70	2.40	N
PHH	04	46	33	10	1.36	2.97	17.1	31	84	225	37.1	4.16	4.59	5.05	5.06	1
PINKERTON'S	12	20	13	17	0.00	0.00	8.3	4	57	55	60.0	–1.24	1.17	0.64	1.65	N
SERVICE CORP. INTERNATIONAL	12	41	13	24	0.44	1.08	96.3	50	82	427	68.9	1.51	1.69	1.93	2.06	1
SERVICEMASTER	12	30	5	14	0.96	3.24	78.1	25	13	137	15.0	1.81	2.15	2.51	2.47	1
22 TELECOMMUNICATIONS																
INDUSTRY AVERAGE		**38**	**11**	**21**	**1.20**	**3.06**	**440.6**	**26**	**47**	**696**	**78.1**	**1.82**	**2.19**	**2.34**	**2.41**	**3**
(A) EQUIPMENT & SERVICES																
GROUP AVERAGE		**34**	**12**	**30**	**0.40**	**1.14**	**439.0**	**24**	**61**	**714**	**140.3**	**1.20**	**1.63**	**2.30**	**1.85**	**6**
AIRTOUCH COMMUNICATIONS	12	29	7	101	0.00	0.00	494.8	1	57	940	49.6	0.20	0.29	NA	0.44	13
AT&T	12	66	13	19	1.32	2.00	1585.4	32	36	1582	40.5	3.01	3.47	4.56	3.89	1
COMSAT	12	19	18	19	0.78	4.03	47.3	5	71	231	80.0	1.64	1.02	1.13	1.18	6
DSC COMMUNICATIONS	12	40	9	23	0.00	0.00	115.3	12	85	618	423.5	1.39	1.75	2.71	2.34	3
MCI COMMUNICATIONS	12	27	14	17	0.05	0.19	678.0	45	53	831	103.7	1.32	1.54	1.95	1.73	1
SCIENTIFIC-ATLANTA	06	16	6	19	0.06	0.38	77.2	–23	82	347	172.0	0.46	0.83*	0.83	0.53	20
SPRINT	12	40	14	14	1.00	2.50	348.6	45	59	784	48.3	2.53	2.80	2.89	2.93	3
WORLDCOM	12	33	12	24	0.00	0.00	165.0	73	49	375	204.6	–0.95	1.37	2.01	1.77	2
(B) TELEPHONE COMPANIES																
GROUP AVERAGE		**41**	**12**	**16**	**1.73**	**4.34**	**440.5**	**28**	**37**	**684**	**36.8**	**2.23**	**2.56**	**2.37**	**2.79**	**2**
ALLTEL	12	30	10	17	0.96	3.25	188.9	–2	38	440	33.1	1.43	1.75	1.76	1.95	1
AMERITECH	12	55	12	16	2.00	3.64	554.0	37	37	854	21.7	2.13	3.38	3.03	3.66	2
BELL ATLANTIC	12	63	15	16	2.80	4.44	437.3	27	32	811	24.7	3.21	3.86	3.59	4.14	1
BELLSOUTH	12	39	12	17	1.44	3.70	992.8	44	15	893	21.9	2.18	2.24	2.04	2.42	1
CINCINNATI BELL	12	30	[illegible]	18	0.80	2.68	66.3	77	38	195	31.7	1.15	1.67	1.38	1.90	3
FRONTIER	12	26	10	19	0.83	3.21	81.9	37	55	296	94.4	1.50	1.37	1.62	1.72	1
GTE	12	43	11	16	1.88	4.41	968.6	41	40	1141	32.3	2.55	2.59	2.19	2.81	2
NYNEX	12	50	14	15	2.36	4.74	427.1	37	38	757	30.9	1.89	3.25	2.86	3.49	2
PACIFIC TELESIS GROUP	12	30	13	12	2.18	7.27	424.1	5	42	720	50.7	2.68	2.44	1.61	2.49	1
SBC COMMUNICATIONS	12	54	10	18	1.65	3.05	609.9	34	35	970	23.7	2.74	3.08	3.37	3.40	1
SOUTHERN NEW ENGLAND TELECOMMS.	12	36	16	14	1.76	4.86	64.9	13	33	273	33.0	2.77	2.64	2.93	2.93	1
US WEST COMMUNICATIONS GROUP	12	31	7	13	2.14	6.85	470.7	–12	44	862	43.4	2.53	2.41	2.02	2.52	2
21 TRANSPORTATION																
INDUSTRY AVERAGE		**44**	**17**	**21**	**0.49**	**1.08**	**57.2**	**47**	**67**	**269**	**128.7**	**0.85**	**3.04**	**4.27**	**3.88**	**14**
(A) AIRLINES																
GROUP AVERAGE		**59**	**11**	**15**	**0.03**	**0.05**	**58.0**	**138**	**60**	**235**	**205.5**	**–3.77**	**4.88**	**2.10**	**6.22**	**20**
ALASKA AIR GROUP	12	18	16	23	0.00	0.00	13.4	21	63	103	291.5	1.62(b)	0.80	NA	1.63	26
AMERICA WEST AIRLINES	12	8	14	14	0.00	0.00	45.2	124	36	71	125.9	NA	1.31	NA	1.63	6
AMR	12	7	49	12	0.00	0.00	76.0	44	93	589	228.3	4.51	6.61	NA	8.25	8
CONTINENTAL AIRLINES	12	[illegible]	9	9	0.00	0.00	27.6	337	34	70	97.3	–23.76	4.14	NA	5.34	18
DELTA AIR LINES	[illegible]	[illegible]	36	19	0.20	0.26	50.8	54	88	400	258.6	–4.72(b)	4.01*	NA	7.50	14

VESTMENT OUTLOOK SCOREBOARD

MPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVI-DEND RATE	YIELD %	SHRS OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURN-OVER %	EARNINGS PER SHARE 1994 ACTUAL	EARNINGS PER SHARE 1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR TREND	1996 ESTIMATES FROM ANALYSTS I/B/E/S CON-SENSUS	1996 ESTIMATES FROM ANALYSTS VARIA-TION %
RTHWEST AIRLINES	12	50	–9	10	0.00	0.00	90.4	243	33	116	107.3	2.92	4.87	NA	5.30	11.1
JTHWEST AIRLINES	12	25	9	21	0.04	0.16	143.7	50	47	408	120.4	1.22	1.20	2.10	1.59	6.3
.	12	210	-11	10	0.00	0.00	12.7	145	92	154	240.9	0.76	21.25	NA	23.66	8.2
AIR GROUP	12	13	–17	NM	0.00	0.00	62.5	222	51	205	379.4	–12.73	–0.29	NA	1.05	83.8
RAILROADS																
OUP AVERAGE		**65**	**26**	**24**	**1.30**	**1.73**	**115.9**	**42**	**65**	**528**	**83.6**	**3.95**	**4.27**	**5.87**	**4.88**	**8.4**
RLINGTON NORTHERN SANTA FE	12	81	23	14	1.20	1.49	89.3	68	NA	NA	130.1	4.38(b)	5.84	5.72	6.23	3.9
NRAIL	12	70	37	15	1.70	2.43	82.6	46	80	552	124.0	3.56(b)	4.76	4.65	5.32	3.0
(	12	88	38	13	2.08	2.37	105.2	26	60	647	53.2	6.23	6.90	6.55	7.71	1.8
NSAS CITY SOUTHERN INDUSTRIES	12	46	16	20	0.30	0.65	42.8	47	71	189	80.2	2.32	2.30	3.23	3.13	4.2
RFOLK SOUTHERN	12	79	37	14	2.08	2.64	129.8	27	60	717	35.2	4.90	5.45	8.44	5.96	2.9
JTHERN PACIFIC RAIL	12	24	7	75	0.00	0.00	156.0	32	54	235	105.0	1.63	0.32	NA	0.95	36.8
ON PACIFIC	12	68	27	16	1.72	2.54	205.6	49	66	827	57.5	4.66	4.33	6.62	4.89	6.1
TRANSPORTATION SERVICES																
OUP AVERAGE		**32**	**20**	**15**	**0.40**	**1.23**	**37.4**	**17**	**72**	**222**	**80.1**	**2.23**	**2.38**	**5.12**	**2.81**	**6.7**
EXPRESS INTERNATIONAL	12	24	7	16	0.20	0.85	18.5	25	68	130	97.5	1.21(b)	1.46	1.70	1.76	6.8
BORNE FREIGHT	12	28	19	27	0.30	1.07	21.1	38	92	154	125.7	1.81	1.06	1.08	1.75	8.6
ERCO	03	20	18	15	0.00	0.00	38.6	14	1	10	9.1	1.23	1.33	1.91	1.45	NM
ALL	12	9	17	20	0.04	0.47	19.4	11	66	86	110.4	0.49	0.43	NA	0.76	5.3
ERAL EXPRESS	05	75	41	13	0.00	0.00	56.5	25	81	430	86.8	5.27	5.88	24.27	6.64	5.4
X	12	49	35	11	1.60	3.28	20.0	12	87	228	50.4	3.78(b)	4.41	3.67	4.87	NM
TSTON SERVICES GROUP	12	31	12	14	0.20	0.66	41.6	16	86	336	100.5	2.11	2.25	2.35	2.61	3.4
DER SYSTEM	12	24	15	13	0.60	2.51	79.1	9	91	367	58.7	1.95	1.86	2.45	2.34	6.8
NITY INDUSTRIES	03	31	17	11	0.68	2.20	41.5	1	74	259	81.9	2.20	2.72	3.52	3.14	10.8
TRUCKING & SHIPPING																
OUP AVERAGE		**23**	**15**	**34**	**0.41**	**1.46**	**30.7**	**–9**	**71**	**176**	**135.5**	**1.16**	**0.89**	**1.89**	**1.83**	**20.9**
XANDER & BALDWIN	12	24	14	27	0.88	3.63	45.5	9	54	183	44.2	1.62	0.91	0.89	1.47	12.2
ERICAN PRESIDENT	12	25	19	11	0.40	1.60	26.8	–3	75	168	82.6	2.30(b)	2.21	2.48	3.23	6.5
KANSAS BEST	12	8	11	NM	0.04	0.49	19.5	–33	81	69	116.4	0.74	–0.50	NA	1.26	18.3
NSOLIDATED FREIGHTWAYS	12	26	16	19	0.40(c)	1.52	43.5	40	75	289	126.8	1.00(b)	1.41	NA	2.08	5.3
NT (J.B.) TRANSPORT SERVICES	12	16	10	74	0.20	1.22	38.7	8	39	108	96.7	1.05	0.22	0.40	0.81	30.9
NDSTAR SYSTEM	12	26	9	12	0.00	0.00	12.8	–22	87	160	247.3	1.90	2.08	4.85	2.42	3.3
ADWAY SERVICES	12	50	25	79	1.40	2.79	39.5	11	50	252	112.4	0.50	0.64	0.46	2.80	14.3
T FREIGHTWAYS	12	20	10	13	0.37	1.89	21.9	–23	97	145	265.1	1.51	1.57	2.27	1.93	6.2
LOW	12	12	16	NM	0.00	0.00	28.1	–50	81	213	127.9	–0.14	–0.54	NA	0.46	91.3
& UTILITIES & POWER																
DUSTRY AVERAGE		**29**	**19**	**17**	**1.49**	**5.28**	**126.0**	**22**	**41**	**324**	**40.6**	**1.98**	**2.15**	**2.25**	**2.29**	**4.3**
ELECTRIC, WATER & COGENERATION																
OUP AVERAGE		**29**	**20**	**12**	**1.70**	**5.98**	**161.1**	**19**	**38**	**357**	**42.2**	**2.12**	**2.36**	**2.44**	**2.43**	**3.1**
EGHENY POWER SYSTEM	12	28	18	14	1.64	5.91	120.4	29	41	259	33.3	1.86	2.00	1.98	2.05	2.9
ERICAN ELECTRIC POWER	12	38	23	13	2.40	6.36	186.3	15	32	501	39.3	2.71	2.85	2.57	2.94	3.7
LTIMORE GAS & ELECTRIC	12	27	19	13	1.56	5.86	147.5	20	37	433	38.7	1.93	2.07	2.47	2.19	2.3
STON EDISON	12	28	22	11	1.82	6.56	46.8	19	35	165	45.9	2.41	2.51	2.85	2.57	1.6
ROLINA POWER & LIGHT	12	33	17	14	1.76	5.35	155.4	23	31	387	30.6	2.03	2.40	2.48	2.50	3.6
NTERIOR ENERGY	12	10	13	6	0.80	8.31	148.0	8	38	147	49.0	1.38	1.54	1.35	1.06	9.4
NTRAL & SOUTH WEST	12	27	17	13	1.72	6.40	192.3	20	43	523	38.8	2.08	2.13	1.97	2.21	2.7
IERGY	12	29	16	14	1.72	5.86	157.1	27	54	469	41.9	1.30	2.12	1.50	2.21	3.2
IS ENERGY	12	27	16	12	0.96	3.52	91.1	25	52	257	47.0	2.09	2.23	NA	2.37	3.0
NSOLIDATED EDISON CO. OF N.Y.	12	29	24	10	2.04	7.10	234.9	12	34	478	30.5	2.98	2.82	3.08	2.83	2.5
TROIT EDISON	12	33	24	12	2.06	6.31	145.0	25	34	395	41.1	2.67	2.82	2.70	2.85	3.5
MINION RESOURCES	12	40	27	14	2.58	6.51	175.6	12	39	442	36.7	2.81	2.89	2.88	3.06	2.6
KE POWER	12	45	23	14	2.04	4.55	204.9	18	40	581	27.1	2.88	3.19	3.24	3.20	4.4
TERGY	12	28	29	12	1.80	6.46	227.8	28	64	484	56.4	1.49	2.28	1.87	2.33	4.7
RIDA PROGRESS	12	34	22	14	2.02	5.88	96.1	16	37	304	35.9	2.28	2.46	2.36	2.54	2.0
. GROUP	12	43	24	14	1.76	4.06	184.9	22	42	634	44.8	2.91	3.12	3.25	3.24	1.5
NERAL PUBLIC UTILITIES	12	32	25	11	1.88	5.94	116.4	22	62	448	54.5	1.42	2.85	2.18	2.95	1.7
USTON INDUSTRIES	12	46	32	13	3.00	6.56	131.3	28	42	476	53.7	3.32	3.47	3.59	3.73	3.8
INOVA	12	28	20	13	1.00	3.52	75.6	30	65	275	54.0	2.01	2.27	2.88	2.45	2.9
NG ISLAND LIGHTING	12	17	21	8	1.78	10.39	119.4	12	33	163	88.9	2.15	2.07	2.06	2.08	3.8
DAMERICAN ENERGY	12	17	12	12	1.20	7.22	99.7	21	1	15	16.5	1.28	1.35	1.33	1.37	2.9
W ENGLAND ELECTRIC SYSTEM	12	39	25	13	2.36	6.05	64.9	21	33	264	30.4	3.07	3.10	2.79	3.24	1.5
W YORK STATE ELECTRIC & GAS	12	26	24	11	1.40	5.38	71.5	37	36	207	51.3	2.37	2.47	2.32	2.54	4.7
AGARA MOHAWK POWER	12	10	18	7	1.12	11.34	144.3	31	40	333	95.2	1.00	1.47	2.18	1.48	7.4
PSCO INDUSTRIES	12	37	18	14	1.56	4.22	62.9	22	52	330	50.8	2.48	2.64	2.87	2.73	3.3
RTHEAST UTILITIES	12	24	19	11	1.76	7.37	126.5	12	31	273	38.1	2.30	2.23	2.17	2.35	3.0
RTHERN STATES POWER	12	47	30	13	2.70	5.74	67.9	8	28	367	32.7	3.46	3.56	3.62	3.66	3.0
IO EDISON	12	23	16	11	1.50	6.59	152.6	23	37	344	35.2	1.97	2.05	0.53	2.09	1.9
LAHOMA GAS & ELECTRIC	12	41	24	13	2.66	6.57	40.4	22	20	198	43.0	3.01	3.05	2.79	3.12	2.2
CIFIC GAS & ELECTRIC	12	28	21	9	1.96	7.13	418.4	10	41	503	33.2	2.21	3.04	2.84	2.85	3.5
CIFICORP	12	20	13	13	1.08	5.50	284.3	8	35	478	41.5	1.51	1.49	1.22	1.55	3.9
CO ENERGY	12	29	20	11	1.74	6.00	222.0	19	38	497	45.1	1.76	2.63	7.20	2.74	2.2
NNACLE WEST CAPITAL	12	27	22	13	1.00	3.67	87.4	39	69	285	54.4	2.30	2.13	3.18	2.26	4.9
TOMAC ELECTRIC POWER	12	25	16	15	1.66	6.78	118.5	34	21	224	56.4	1.79	1.69	1.80	1.80	2.8
&L RESOURCES	12	25	16	13	1.67	6.71	158.4	33	22	177	NA	1.41	1.95	1.69	1.99	3.0



BOOMING.

On the banks of the Potomac, the world's most aggressive industries – the so-called "knowledge-based" businesses – are taking off. From data communications to biotechnology, Greater Washington is hosting unprecedented growth. No wonder Business Week has chosen Greater Washington as the site of its Symposium of Chief Executive Officers for the past eight years. Our region offers all of the elements crucial to business success. The nation's most highly educated work force. The second highest concentration of science and technology companies. A great lifestyle. Endless parks. Easy access to international markets. And, of course, excellent symposiums. The monuments are just an extra added attraction.

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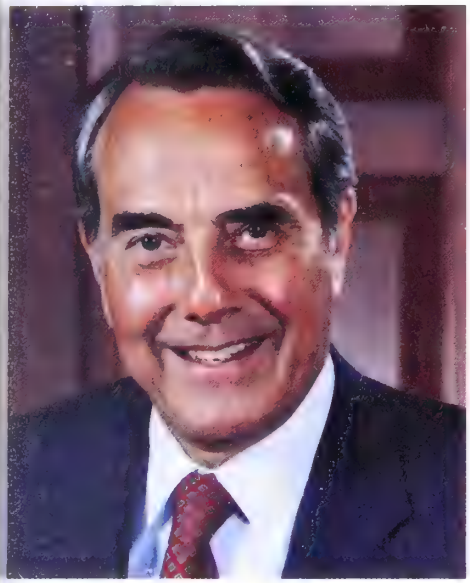

Honorable **Robert Dole,** Majority Leader, United s Senate

The Honorable **Newt Gingrich,** Speaker, United States House of Representatives

The Honorable **Mickey Kantor,** United States Trade Representative

The Honorable **William Weld,** Governor, The Commonwealth of Massachusetts

The Honorable **Dr. Laura Tyson,** National Economic Adviser to the President

e 1995 Business Week Symposium Chief Executive Officers had a itical flavor, with visits from **Newt ıgrich**, **Bob Dole**, Massachusetts **Gov. lliam Weld**, U.S. Trade Representative **ckey Kantor**, President's National onomic Adviser **Dr. Laura Tyson**, ıate Budget Committee Chairman **e Domenici**, House Ways and Means mmittee Chairman **Bill Archer**, House oublican Conference Chairman **John ehner**, Republican National Committee airman **Haley Barbour**, and Represen-ve **Barney Frank** of Massachusetts. But the pols on parade did not prevent siness Week's Symposium '95 from filling its primary purpose: to be a ce where the CEOs of America's gest corporations meet to share leader-p insight.

"Of This I Am Certain..."

Heidrick & Struggles Chairman **Gerard Roche** opened the Symposium chairing a dream panel of top CEOs. Roche, dubbed "head-hunting's high priest" by Business Week and easily his industry's most successful executive, asked each panelist to respond to the statement "Of this I am certain." Here are some of the certainties they shared:

From Edwin L. Artzt, retired chairman of the board and chief executive, Procter and Gamble Company:

"I am certain the successful CEO must create an atmosphere of continuous, constructive change. As CEO only you can perform this job of altering the organization mindset. It was tough for me when I took over at P&G. I had been there 30 years. The last thing anyone

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By Scott Shuster, consultant to Business Week Executive Programs, and chair of the annual Business Week Symposium of Chief Executive Officers.

The 1995 BusinessWeek Symposium of Chief Executive Officers

"To be a great leader, you've got to want it. You've got to be impassioned."

Gerard R. Roche,
chairman,
Heidrick & Struggles, Inc.

"We use management talent from 140 nations — from every country we work in — to optimize what we do in each place."

Edward F. Staiano, Ph.D.,
executive vice-president,
Motorola Inc.; president and general manager,
Motorola General Systems Sector

Retirement Income: A Challenge To Business, Government, and the Nation

"... It is vital that business take an active role ..."

David J. Drury,
chairman and chief executive officer,
The Principal Financial Group

"Social Security's original purpose was to provide basic retirement support for low-income workers. To think that Social Security could or should do more than this is a serious misunderstanding in public thinking. And yet the baby boom generation is saving at only one-third of the rate necessary to enjoy their pre-retirement standard of living after they retire. We must look to private personal savings and private pension plans to fulfill this critical national need. It is vital that not only our government but also our businesses take an active role in providing incentives to people to undertake the additional retirement saving they need."

expected from me was a lot of change. And our company has an operating principle that goals should come from the bottom up. But I felt I had to show our organization a set of goals that they would not set for themselves, and that they had a better, greater performance within them if they would just unleash it. That is one of the jobs of the leader."

From Arthur C. Martinez, chairman and chief executive officer, Sears, Roebuck and Co.: "Turnaround does not equal transformation. In the flush of Sears' 20% and 30% earnings increases there is a desire to say the job's done. Nothing could be further from the truth. We must change ourselves from a company so focused on itself that it had lost its relationship with its customer, into a customer-dominated company. How do we create economic and business literacy through our ranks to enable our executives and associates to make decisions on behalf of the customer? That's the job of the ongoing Sears transformation."

From Charlotte Beers, chairman and chief executive officer, Ogilvy & Mather Worldwi
"I'm certain the best thing that can happen a leader is to have your employees badger y with questions like 'Where are we going?' Being able to rally your world around a cle defined direction is the capacity to enhance your every effort. A well-articulated vision informs the CEO's every movement. If your competitors are content to have some flat bu ness jargon with a hint of self-interest stand their vision, while you find a poetic, inspiri heart-lifting way to say what you want to do what you believe in, what your dreams are, you've got a competitive advantage."

"Ever-Increasingly Relatively Smalle Home Markets"

Thousands of American executives are now active in places they had not heard of in 198 the year of the first Business Week Symposiu of Chief Executive Officers. Thanks to the GATT, NAFTA, the fall of communism and worldwide shift toward democracy and free markets, crossing frontiers for profit is easie than it used to be. But developing a corpora conceptual framework for internationalizati is still a challenge.

"Each of us sees the abounding evidence says **David Whitwam**, chairman and CEO Whirlpool, "America and all the developed economies have ever-increasingly relatively smaller home markets." So Whirlpool set ou to build the world's first integrated global appliance business, something nobody but Whirlpool believed could be done. This conceptual leap enabled the company to sco a remarkable global success.

Ed Staiano, president of Motorola's cellu lar phones business faced a different kind o international challenge. "Cellular went from $2-billion dollar business to in excess of a $10-billion business in five years. Hanging onto this thing as it rockets through the worl is our most difficult challenge, particularly when 70% of our revenue comes from outsi

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Technology permits the smart CEO to make faster, better, decisions."

James H. Goodnight, president and chief executive officer, SAS Institute Inc.

the United States." Staiano credits Motorola's astounding cellular success to two things: "Our completely decentralized and entrepreneurial organizational structure and the company's commitment to using management talent from 140 nations — from every country we work in — to optimize what we do in each place."

Innovation, Please. Now.

Massaging knowledge into new products is a primary CEO preoccupation. Take the computer business, starkly described by **Alan G. Lutz**, corporate executive vice-president and president of the Unisys Computer Systems Group: "The price-to-performance ratio of computers improves 40% per year. If I can't do that in performance I have to give it up in price. So innovation is a human characteristic that we study carefully. We have discovered that innovation occurs more rapidly in smaller units. That's why we expose our engineers to small companies.

"We have also discovered a cultural diversity effect: if we take North Americans and team them with Asians and Europeans, that works. We encourage innovation with a passion."

It is not only technologists who innovate: managers and leaders do, too.

"Technology permits the smart CEO to make faster, better, decisions," says **James H. Goodnight**, president and chief executive officer of SAS Institute. "Informed CEOs log on every morning and fire up an executive information system to check their enterprise data. Constant availability of fresh information enables constant fine-tuning of company activities. For a lot of CEOs, these leadership tools are the difference between success and failure. Too few CEOs take full advantage of these. Leaders must be innovative to compete in today's fast-changing marketplace."

The 1995 BusinessWeek Symposium of Chief Executive Officers

"We encourage innovation with a passion."

Alan G. Lutz, corporate executive vice-president and president, Computer Systems Group, Unisys Corporation

Standardization Management Saves Eighty-Three Million Dollars

The news that set CEO pens scribbling at the 1995 Business Week Symposium was Ameritech Chairman and CEO Richard C. Notebaert's nonchalant announcement that he had just saved $83-million in nine months through something called "strategic standardization." "That is a sizable sum of money," he deadpanned. "We have 60,000+ employees, so you can extrapolate for yourself what this could mean for you."

Strategic standardization is a process developed by the American National Standards Institute (ANSI), a private not-for-profit membership organization. ANSI helps member companies such as Ameritech with internal standardization, and also has the global task of coordinating thousands of U.S. voluntary standards and representing the U.S. within the ISO and other international standards bodies.

Sergio Mazza, president, American National Standards Institute

A Dangerous Situation

Harmonization of standards is high on the U.S. trade policy agenda but gets little attention from American companies. ANSI President Sergio Mazza, former head of Memorex U.S.A., warns of "a dangerous situation. In smaller countries that rely more heavily on international trade, harmonization of standards is high on every CEO's personal action agenda. They work hard to make their standards the world's standards. Meanwhile," says Mazza, "American CEOs are asleep. Few have any personal involvement in this." AMP President William J. Hudson warned the CEOs that "unless you get involved, we could end up having to play by our competitors' rules."

The American National Standards Institute (ANSI) is a not-for-profit corporate membership organization fighting for the application of U.S. standards around the world. Write ANSI at 11 West 42nd Street, New York, NY 10036. Call ANSI at (212) 642-4900. Fax ANSI at (212) 398-0023.

"90% of the resources spent on IT are still being applied to nothing more than doing yesterday's tasks better or faster."

Don Hawley, president of management consultants Symmetrix, Inc.

The 1995 BusinessWeek Symposium of Chief Executive Officers

"Real gains in leadership ability can be made through training."

Dr. Michael Useem, professor of management, The Wharton School of The University of Pennsylvania

Don Hawley, president of management consultants Symmetrix, Inc., agrees that, for too many CEOs, information technology is an underutilized asset and a missed opportunity. That gap offers the innovators among them a tremendous opportunity for driving their business past its competition. "90% of the resources spent on IT are still being applied to nothing more than doing yesterday's tasks better or faster. That's both a tragedy and an invitation. The same IT spending can help redefine customer relationships and achieve the rapid adaptations you need to stay competitive. When IT is applied as a strategic asset rather that just an implementation tool, it can open up countless doors to new customers, new markets, and new profits."

Bulletin: Leaders CAN Be Made!

The belief that "leaders are made, not born" is particularly widespread among leaders themselves. But a need for leadership talent at all levels of the corporation is sending CEOs running to the business schools, begging for leaders.

"The need for leadership is exacerbated by flattened corporate organizations, improved intra-organizational communication, globalization, and general industry turbulence," says **Dr. Michael Useem**, professor of management at The Wharton School of The University of Pennsylvania and a member of the small team that creates Wharton's leadership curriculum.

"There is nothing that will clear your sinuses better than getting an honest and anonymous evaluation from 20 subordinates," says Bell Atlantic Chairman and CEO **Ray Smith**. "The work we have done with Wharton has revealed techniques that definitely improve communication and enhance team performance. It creates people who are able to handle constructive input as well as congratulatory input."

The Business Week Executive Programs CEOs-Only Presidential Poll

Leaders Like a Leader

The big surprise of the 1995 Business Week Symposium: a 41% preference for Colin Powell among the CEOs of large firms at the gathering.* And 73% of this overwhelmingly Republican group of business leaders indicated dissatisfaction with the performance of the Republican congressional leadership. Every vote was cast by the CEO of a large firm (annual revenues $250M+).

CEOs' Presidential Preference Results:*

Bill Bradley	5%
Bill Clinton	4%
Bob Dole	19%
Colin Powell	41%
Lamar Alexander	2%
Newt Gingrich	9%
Pat Buchanan	0%
Pete Wilson	4%
Phil Gramm	3%
Others or "Still Waiting"	11%

*Audience polling system provided by Quick Tally Interactive Systems of Beverly Hills, California. Poll conducted prior to the withdrawal of Powell and Wilson

Cadillac = Innovation and Technology Central

John O. Grettenberger, Cadillac General Manager and General Motors Vice-President

"Technology leadership is a key attribute of the Cadillac brand. In 1909 we invented interchangeable auto parts. In 1913 we developed a new way for you to start your car so you wouldn't have to get out and crank it any more. Ten years later we came up with the first successful mass production engine: the V8.

"The Cadillac V8 is probably the world's best example of an upgradeable innovation. We have refined it for 73 years to meet the demand for more horsepower, smoother and quieter operation, better fuel economy, and lower emissions.

"Innovations like anti-lock braking, traction control, and computer controlled suspension systems have resulted in Cadillacs that are safer, more comfortable, easier to drive — in short, more competitive. All these technologies come together in Cadillac's Northstar System.

"Northstar receives attention for its spectacular engine, but it's much more. Northstar is a system, comparable to a highly-integrated computer network. It links powertrain, chassis, and safety systems into a single entity so that no part ever fights with any other part. It is a holistic car. That's how Northstar allows the owner to go 100,000 miles between tune-ups. I'll say that again: 100,000 miles between tune-ups.

"In Northstar, Cadillac engineers have created a broadly flexible platform on which we can mount new vehicle ride and handling innovations for each of our distinct products. Like the V8, the Northstar system gives us the ability to upgrade and maintain our competitive advantage over time and to create a higher standard."

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VESTMENT OUTLOOK SCOREBOARD

PANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1995 EST	1995 DIVI-DEND RATE	YIELD %	SHRS. OUT MILS	1995 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1995 TURN-OVER %	EARNINGS PER SHARE 1994 ACTUAL	1996 ESTIMATES I/B/E/S 1995 ANALYST EST	1996 ESTIMATES BASED ON 5-YR. TREND	1996 ESTIMATES FROM ANALYSTS I/B/E/S CON-SENSUS	1996 ESTIMATES FROM ANALYSTS VARIA-TION %
IC SERVICE CO. OF COLORADO	12	35	21	13	2.04	5.91	63.2	19	34	269	42.6	2.57	2.63	2.58	2.72	2.2
IC SERVICE ENTERPRISES	12	30	22	11	2 16	7.29	244.7	12	37	501	37.1	2.78	2.67	2 70	2.78	2.5
DIEGO GAS & ELECTRIC	12	23	13	12	1.56	6.86	116.5	18	17	162	20 6	1.17	1.92	1 55	1.95	2.6
NA	12	27	15	15	1.44	5 33	103.4	38	44	237	31.8	1.60	1.75	1 56	1.86	3.2
ORP	12	16	14	9	1.00	6.35	445.4	7	32	533	39.4	1.52	1.67	1.50	1.70	2.4
THERN	12	23	13	14	1.22	5.33	665.8	16	28	610	27.5	1.52	1.67	1.93	1.73	2.3
ENERGY	12	24	10	16	1.06	4.37	116.6	20	39	299	22 7	1.32	1.56	1.51	1.64	2.4
S UTILITIES	12	39	26	14	2.00	5.19	225.8	20	49	597	60.1	2.40	2.81	1.92	3.01	2.3
OM	12	32	27	10	1.60	5.00	214.8	34	56	489	47.1	1.66	3.07	4.06	3.03	4.6
N ELECTRIC	12	40	23	14	2.44	6.08	102.1	13	27	344	35.7	3.01	2.93	2.97	2.96	3.0
TERN RESOURCES	12	33	25	13	2.02	6.10	62.5	17	33	226	40.1	2.82	2.65	3.00	2.69	3.0
ELABRATOR TECHNOLOGIES	12	15	8	14	0.11	0.73	184.6	1	29	227	39.3	0.97	1.08	1.55	1.20	1.7
CONSIN ENERGY	12	30	17	14	1.47	4.98	110.5	16	36	323	28.1	1.67	2.14	1.92	2.18	2.3
GAS, OIL & TRANSMISSION																
UP AVERAGE		**29**	**17**	**26**	**1.07**	**3.89**	**55.7**	**26**	**46**	**259**	**37.5**	**1.70**	**1.71**	**1.88**	**2.00**	**6.6**
NTA GAS LIGHT	09	19	11	38	1.06	5.54	54.8	36	19	146	29.2	1.17	0.50*	0.69	1.37	6.2
OKLYN UNION GAS	09	28	18	15	1 39	4.92	48 5	28	28	172	24.9	1.85	1 90*	2.04	2.00	2.0
UMBIA GAS SYSTEM	12	43	33	15	0 00	0.00	50 6	84	61	268	58.2	4.87	2 80	4 00	2.86	7 7
SOLIDATED NATURAL GAS	12	44	21	20	1.94	4.38	93.3	25	43	464	34 3	1.97	2.25	2 21	2.44	2.9
TERN ENTERPRISES	12	33	20	14	1.48	4.55	20.2	22	76	262	43.0	1.87	2.28	1.96	2.45	2.4
ASO NATURAL GAS	12	31	20	12	1.32	4.29	34 2	3	64	246	75 3	2.45	2.48	2 67	2.67	4 1
ERCH	12	16	10	60	0.20	1.29	68.5	21	64	270	57.8	1 05	0 26	0 43	0.75	22.7
TABLE RESOURCES	12	31	22	24	1.18	3.84	34 5	14	65	205	46 8	1.76	1.27	1.46	1.86	7 0
ENERGY	12	29	15	16	1.00	3.43	28.0	24	46	131	23.5	0.52	1.83	1.03	2.17	1.8
	12	22	10	15	0.93	4.28	66.3	34	42	251	33 8	1.31	1.42	1 80	1.60	1.9
ONAL FUEL GAS	09	32	22	16	1.62	5.04	37.4	26	32	172	27 0	2 23	2 03*	2.29	2.26	2.2
IR	12	25	13	13	1 28	5.04	50.5	9	49	342	25.6	2 07	1 91	2.00	2.06	1.9
AM ENERGY	12	8	5	19	0.28	3.56	124.0	48	35	260	39.1	0.36	0.42	0.30	0.51	19.6
OK	08	24	14	15	1.16	4.94	27.0	32	49	242	31.8	1.34	1.58*	1.57	1.66	6.6
FIC ENTERPRISES	12	27	15	13	1.36	5.08	84.7	26	48	377	40.7	1.95	2.11	2.33	2.15	2.3
HANDLE EASTERN	12	28	14	14	0.90	3.17	149.7	44	63	497	47.0	1.51	2.01	2.27	2.22	2.7
PLES ENERGY	09	31	19	17	1.80	5.90	34 9	17	37	257	26 7	2 13	1.78*	1 91	2.17	5.1
AT	12	32	16	22	1.08	3.35	86.3	15	63	509	55.2	1.62	1.44	2.02	1.85	11.4
S GAS	12	49	25	21	0.00	0.00	11.6	14	51	99	20.6	1.87	2.36	2.81	3.14	6.7
ICORP UNITED	12	28	20	13	1.72	6.17	45.5	7	22	167	22.5	2.08	2.09	1.94	2.23	2.2
HINGTON GAS LIGHT	09	21	12	14	1.12	5.37	42.8	26	22	140	19.3	1.42	1.45*	1.50	1.45	4.1
TERN GAS RESOURCES	12	16	15	181	0.20	1.23	25.8	15	39	99	29.9	-0.19	0.09	0.14	0.63	28.6
OR	12	31	17	13	1.64	5.33	17.0	9	31	121	19.4	1.99	2.29	2.68	2.55	1.2
IAMS	12	42	28	16	1.08	2.57	102.1	88	65	530	69.3	1.52	2.59	3.04	2.95	5.1

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

0c
t Laboratories 12d
iced Micro 9d
21d
Life & Casualty 17b
17b
15c
nson (H.F.) 17c
press Intl. 23c
oducts & Chemicals 4
ne Freight 23c
ch Communications 22a
eel Holding 16b
a Air Group 23a
harle 4
o Culver 6d
son's 10c
Standard 5
16a
nder & Alexander 17a
nder & Baldwin 23d
heny Ludlum 16b
heny Power 24a
gan 12b
Signal 5
erica Property & Cas. 17b
ate 17b
22b
ax 16a
hl 18b
ada Hess 11a
co 23c
ica West 23a
ican Bankers Insurance 17b
ican Brands 6e
ican Electric 24a
ican Express 17a
American Financial Group 17b
American General 17b
American Greetings 14d
American Home 12b
American Intl. Group 17b
American President 23d
American Re 17b
American Standard 13a
American Stores 10c
AmeriData Technologies 18c
AmeriSource Health 12a
Ameritech 22b
Ametek 9a
Amgen 12b
Amoco 11a
AMP 9d
AMR 23a
AmSouth Bancorporation 3c
Anheuser-Busch 6c
Anixter International 5
Aon 17b
Apple Computer 18b
Applied Materials 15c
Arcadian 4
Archer Daniels 10b
Arco Chemical 4
Arkansas Best 23d
Armco 16b
Armstrong World 6b
Arrow Electronics 21b
Arvin Industries 2b
Asarco 16c
Ashland 11a
AST Research 18b
AT&T 22a
AT&T Capital 17a
Atlanta Gas Light 24b
Atlantic Richfield 11a
Automatic Data 18c
AutoZone 8
Avery Dennison 15a
Avnall 23c
Avnet 21b
Avon Products 6d
B
Baker (J.) 8
Baker Hughes 11b
Ball 7a
Bally Entertainment 14c
Baltimore G&E 24a
Banc One 3b
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
Bankers Life Holding 17b
Bankers Trust 3a
Banta 21d
Bard (C.R.) 12d
Barnes & Noble 8
Barnett Banks 3c
Bausch & Lomb 12d
Baxter International 12d
Bay Networks 18c
Bear Stearns 17a
Bearings 21b
Beckman Instruments 9c
Becton, Dickinson 12d
Bell Atlantic 22b
BellSouth 22b
Bemis 7b
Beneficial 17a
Bergen Brunswig 12a
Berkley (W.R.) 17b
Best Buy 6b
Best Products 8
Bethlehem Steel 16b
Beverly Enterprises 12c
Bindley Western Inds. 12a
Birmingham Steel 16b
Black & Decker 15b
Block (H&R) 17a
Boatmen's Bancshares 3b
Boeing 1
Boise Cascade 19a
Boise Cascade Office Prods 21b
Borders Group 8
Borg-Warner Automotive 2b
Borg-Warner Security 21e
Boston Edison 24a
Bowater 19b
Bradlees 8
Briggs & Stratton 15c
Brinker International 14a
Bristol-Myers Squibb 12b
Brooklyn Union Gas 24b
Brown Group 6a
Brown-Forman 6c
Browning-Ferris 21c
Brunswick 14d
Burlington Coat Factory 8
Burlington Industries 15d
Burlington Northern Santa Fe 23b
Burlington Resources 11a
C
Cabletron Systems 18c
Cablevision Systems 20a
Cabot 4
Caldor 8
California Federal Bank 17c
Campbell Soup 10b
Capital Cities/ABC 20a
Cardinal Health 12a
Caremark Intl 12c
Carnival 14d
Carolina Power 24a
Carson Pirie Scott 8
Case 15c
Caterpillar 15c
CBI Industries 4
CDI 21e
Centerior Energy 24a
Centex 13b
Central & South West 24a
Ceridian 18c
Champion Intl 19b
Charming Shoppes 8
Charter Medical 12c
Chase Manhattan 3a
Chemical Banking 3a
Chesapeake 19b
Chevron 11a
Chiquita Brands Intl 10b
Chrysler 2a
Chubb 17b
Cigna 17b
Cincinnati Bell 22b
Cincinnati Financial 17b
Cincinnati Milacron 15b
CINergy 24a
Circle K 10c
Circuit City Stores 6b
Circus Circus 14c
Cirrus Logic 9d
Cisco Systems 18c
Citicorp 3a
Citizens 17b
Clorox 6d
CMS Energy 24a
CNA Financial 17b
Coastal 11a
Coca-Cola 6c
Coca-Cola Enterprises 6c
Colgate-Palmolive 6d
Collins & Aikman 15d
Coltec Industries 15c
Columbia Gas 24b
Columbia/HCA Healthcare 12c
Comcast 20a
Comdisco 18c
Comerica 3b
Commercial Metals 16b
Compaq Computer 18b
CompuCom Systems 18a
CompUSA 18c
Computer Associates 18c
Computer Sciences 18c
Comsat 22a
ConAgra 10b
Cone Mills 15d
Conner Peripherals 18b
Conrail 23b
Conseco 17b
Consolidated Edison 24a
Cons. Freightways 23d
Cons. Natural Gas 24b
Consolidated Papers 19b
Consolidated Stores 8
Continental Airlines 23a
Cooper Cameron 11b
Cooper Industries 9a
Cooper Tire & Rubber 2c
Coors (Adolph) 6c
CoreStates Financial 3a
Corning 15a
Countrywide Credit 17a
CPC International 10b
Crane 21b
Cray Research 18b
Crestar Financial 3c
Crown Central Petroleum 11a
Crown Cork & Seal 7a
CSX 23b
CUC International 21e
Cummins Engine 2b
Cyprus Amax Minerals 16c
Cytec Industries 4
D
Dana 2b
Danaher 15b
Darden Restaurants 14a
Data General 18b
Dayton Hudson 8
Dean Foods 10b
Dean Witter, Discover 17a
Deere 15c
Dell Computer 18b
Delta Air Lines 23a
Deluxe 18a
Detroit Diesel 2b
Detroit Edison 24a
Dexter 4
Dial 5
Diamond Shamrock 11a
Digital Equipment 18b
Dillard 8
Dimon 6e
Disney (Walt) 14b
Dole Food 10b
Dollar General 8
Dominion Resources 24a
Donnelley (R.R.) 21d
Dover 15c
Dow Chemical 4
Dow Jones 20b
Dresser Industries 15c
DSC Communs. 22a
Duke Power 24a
Dun & Bradstreet 20b
DuPont 4
Duracell International 15a

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

E

[illegible] 24b
[illegible] 4
Eastman Kodak 14d
Eaton 2b
[illegible] 2b
[illegible] 12a
[illegible] 6d
Edward (A G) 17a
[illegible] 21a
Egghead 18a
El Paso Natural Gas 24b
Electronic Data Systems 18c
EMC 18b
Emerson Electric 9a
[illegible] 4
Enron 21b
Enserch 24b
[illegible] 24a
[illegible] 17a
Equitable 17b
Equitable Resources 24b
Ethyl 4
[illegible] 15a
Exxon 11a

F

Family Dollar Stores 8
[illegible] 17a
Federal Express 23c
Federal Home Loan 17a
Federal Paper Board 7b
Federal-Mogul 2b
Federated Dept Stores 8
Ferro 4
FHP International 12c
[illegible] 15d
Fifth Third Bancorp 3b
[illegible] 8
First American Finl 17a
First Bank System 3b
First Brands 15a
First Chicago NBD 3b
First Colony 17b
First Data 18c
First Fidelity 3a
First Interstate Bancorp 3d
First of America Bank 3b
First Union 3c
First USA 17a
Firstar 3b
Fisher Scientific 21b
Flagstar 14a
Fleet Financial Group 3a
Fleetwood Ents 14d
Fleming 10a
Florida Progress 24a
Flowers Industries 10b
Fluor 21a
[illegible] 15c
Foamex International 15a
Food Lion 10c
Ford Motor 2a
Fort Howard 19b
Foster Wheeler 21a
Foundation Health 12c
FoxMeyer Health 5
FPL Group 24a
Franklin Resources 17a
Freeport McMoRan 16c
Freeport McMoRan C&G 16c
Frontier 22b
Fruit of the Loom 6a
Fuller (H B) 4

G

[illegible] 20b
Gap 8
Gateway 2000 18b
GATX 23c
Geico 17b
GenCorp 1
Genentech 12b
General Dynamics 1
General Electric 5
General Instrument 9b
General Mill 10b
General Motors 2a
General Public Utls 24a
[illegible]
General Signal 9a
[illegible] 11b
[illegible] 4
Georgia Gulf 4
Georgia Pacific 19a
Giant Food 10c
Gillette 6d
Glendale Federal Bank 17c
Golden West 17c
Goodrich (B F) 4
Goodyear Tire & Rubber 2c
Grace (W.R) 4
Grainger (W.W) 21b
Great A&P 10c
Great Lakes Chemical 4
Great Western 17c
GTE 22b
Guidant 12d

H

Halliburton 11b
Handleman 21e
Hanna (M.A) 4
Hannaford Brothers 10c
Harcourt General 5
Harley-Davidson 14d
Harman International 14d
Harnischfeger 15c
Harrah's Entertainment 14c
Harris 9b
Harsco 15a
Hasbro 14d
Health Systems Intl 21e
Healthsouth 12c
Hechinger 8
Heilig-Meyers 6b
Heinz (H.J) 10b
Helene Curtis Industries 6d
Hercules 4
Hershey Foods 10b
Hewlett-Packard 18b
Hillenbrand 15a
Hilton Hotels 14c
Home Depot 8
Home Shopping 8
HON Industries 18a
Honeywell 9c
Hormel Foods 10b
Host Marriott 14c
Household Intl 17a
Houston Industries 24a
Hubbell 9a
Hudson Foods 10b
Hughes Electronics 9b
Hughes Supply 21b
Humana 12c
Hunt (J B) 23d
Huntington Bancshares 3b

I

IBM 18b
IBP 10b
Illinois Tool Works 15a
Illinova 24a
IMC Global 4
InaCom 21e
Ingersoll-Rand 15c
Inland Steel 16b
Integra Financial 3a
Intel 9d
Intelligent Electronics 18a
Interco 6b
Intergraph 18c
International Flavors 4
Intl Multifoods 10a
International Paper 19b
Interpublic Group 21d
Interstate Bakeries 10b
ITT 5
IVAX 12b

J

Jacobs Engineering 21a
James River 19b
Jefferson Smurfit 7b
Jefferson-Pilot 17b
John Alden Finl 17b
[illegible] & Johnson 12d
Johnson Controls 15a
JP Foodservice 10a

K

KN Energy 24b
Kaiser Aluminum 16a
[illegible] 21b
Kansas City Southern 23b
Kaufman & Broad 13b
[illegible] 16b
Kellwood 6a
[illegible] 21e
Kemper 17b
Kennametal 15b
Kerr McGee 11a
KeyCorp 3b
Kimball Intl 6b
Kimberly-Clark 19b
Kmart 8
Knight-Ridder 20b
Kohl's 8
Kroger 10c

L

La-Z-Boy Chair 6b
Laboratory Corp. of America 12c
Lafarge 13a
Lam Research 15c
Lands' End 8
Landstar System 23d
Lear Seating 2b
Leggett & Platt 6b
Lehman Brothers Holdings 17a
Levitz Furniture 6b
Liberty Financial 17b
Lilly (Eli) 12b
Limited 8
Lincoln Electric 15b
Lincoln National 17b
Litton Industries 9b
Liz Claiborne 6a
Lockheed Martin 1
Loews 17b
Long Island Lighting 24a
Longs Drug Stores 12a
Loral 9b
Louisiana-Pacific 19a
Lowe's 8
LSI Logic 9d
LTV 16b
Lubrizol 4
Lukens 16b
Lyondell 4

M

Magma Copper 16c
MagneTek 9a
Mallinckrodt Group 12d
Manor Care 12c
Manpower 21e
Manville 19b
Mapco 11a
Mark IV Industries 15a
Marriott Intl 14c
Marsh & McLennan 17a
Marsh Supermarkets 10c
Masco 6b
MascoTech 2b
Mattel 14d
Maxtor 18b
May Department Stores 8
Maytag 6b
McCormick 10b
McDermott Intl 15c
McDonald's 14a
McDonnell Douglas 1
McGraw-Hill 20b
MCI Communications 22a
McKesson 12a
MCN 24b
M D C Holdings 13b
Mead 19b
Medtronic 12d
Mellon Bank 3a
Melville 8
Mercantile Bancorp 3b
Mercantile Stores 8
Merck 12b
Meredith 20b
Meridian Bancorp 3a
[illegible] 18a
Merrill Lynch 17a
Meyer (Fred) 8
Michaels Stores 8
MicroAge 18a
Micron Electronics 18b
Micron Technology 9d
Microsoft 18c
MidAmerican Energy 24a
Midlantic 3a
Miller (Herman) 18a
Minnesota Mining 15a
Mirage Resorts 14c
Mitchell Energy 11a
Mobil 11a
Modine Mfg 2b
Mohawk Industries 15d
Molex 9d
Monsanto 4
Morgan (J P) 3a
Morgan Stanley 17a
Morrison Knudsen 21a
Morrison Restaurants 14a
Morton International 4
Motorola 9b
Murphy Oil 11a
Musicland Stores 14d

N

Nabisco Holdings 10b
Nacco Industries 15b
Nalco Chemical 4
National City 3b
National Fuel Gas 24b
National Semicond 9d
National Service 9a
National Steel 16b
NationsBank 3c
Navistar International 2a
Neiman Marcus Group 8
New England Electric 24a
New York State E&G 24a
New York Times 20b
Newell 15a
Niagara Mohawk 24a
Nicor 24b
Nike 6a
Nipsco Industries 24a
NL Industries 4
NorAm Energy 24b
Nordstrom 8
Norfolk Southern 23b
Northeast Utilities 24a
Northern States 24a
Northern Trust 3b
Northrop Grumman 1
Northwest Airlines 23a
Norwest 3b
NovaCare 12c
Novell 18c
Nucor 16b
Nynex 22b

O

Occidental Pet 11a
Office Depot 8
OfficeMax 8
Ogden 5
Ohio Casualty 17b
Ohio Edison 24a
Oklahoma G&E 24a
Old Republic Intl 17b
Olin 4
Olsten 21e
Omnicom Group 21d
Oneok 24b
Oracle 18c
Oregon Steel Mills 16b
OrNda HealthCorp 12c
Oryx Energy 11a
Outboard Marine 14d
Owens & Minor 12d
Owens-Corning 13a
Owens-Illinois 7a

P

Paccar 2a
Pacific Enterprises 24b
Pacific G&E 24a
Pacific Telesis Group 22b
PacifiCare Health 12c
PacifiCorp 24a
PaineWebber Group 17a
Pall 5
Panhandle Eastern 24b
Parker Hannifin 15a
Paul Revere 17b
Payless Cashways 8
PECO Energy 24a
Penn Traffic 10c
Penney (J C) 8
Pennzoil 11a
[illegible] 15c
Peoples Energy 24b
Pep Boys 8
PepsiCo 6c
Perkin-Elmer 9c
Pfizer 12b
Pharmacia & Upjohn 12b
Phelps Dodge 16c
PHH 21e
Philip Morris 6e
Phillips Petroleum 11a
Phillips-Van Heusen 6a
Physician Corp 12c
Pinkerton's 21e
Pinnacle West 24a
Pioneer Hi-Bred 10b
Pioneer-Standard 21b
Pitney Bowes 18a
Pittston Minerals 11a
Pittston Services 23c
PNC Bank 3a
Polaris Industries 15a
Polaroid 14d
Potlatch 19b
Potomac Electric 24a
PP&L Resources 24a
PPG Industries 13a
Praxair 4
Premark Intl. 5
Premier Industrial 21b
Price/Costco 8
Procter & Gamble 6d
Progressive 17b
Protective Life 17b
Provident Life 17b
Providian 17b
PS Co. of Colorado 24a
Public Service Ent. 24a
Pulte 13b

Q

Quaker Oats 10b
Quantum 18b
Quorum Health Group 12c

R

Ralcorp Holdings 10b
Ralston Purina 10b
Raychem 9a
Rayonier 19a
Raytheon 9b
Reader's Digest 20b
Reebok International 6a
Regions Financial 3c
Reliance Group 17b
ReliaStar Financial 17b
Republic New York 3a
Revco D.S. 12a
Rexel 21b
Reynolds & Reynolds 18a
Reynolds Metals 16a
Rhone-Poulenc Rorer 12b
Richfood Holdings 10a
Riser Foods 10c
Rite Aid 12a
Riverwood Intl 7b
RJR Nabisco 6e
Roadway Services 23d
Rockwell International 5
Rohm & Haas 4
Rohr 1
Ross Stores 8
Rouge Steel 16b
Royal Caribbean Cruises 14d
RPM 13a
Rubbermaid 15a
Ruddick 10c
Russell 6a
Ryder System 23c
Rykoff-Sexton 10a
Ryland Group 13b

S

Safeco 17b
Safeguard Scientifics 18c
Safeway 10c
Sallie Mae 17a
Salomon 17a
San Diego G&E 24a
Sara Lee 10b
SBC Communications 22b
Scana 24a
SCEcorp 24a
Schering-Plough 12b
Schlumberger 11b
Schwab (Charles) 17a
SCI Systems 9d
Scientific-Atlanta 22a
Scott Paper 19b
Scripps (E.W) 20b
Seagate Technology 18b
Sears, Roebuck 8
Sensormatic Electronics 9b
Service Corp. Intl 21e
Service Merchandise 8
ServiceMaster 21e
Shaw Industries 15d
Sherwin-Williams 13a
Shoney's 14a
ShopKo Stores 8
Sigma-Aldrich 12b
Silicon Graphics 18b
Smart & Final 10a
Smith (A O) 2b
Smith's Food & Drug 10c
Smithfield Foods 10b
Snap-on 15b
Solectron 9d
Sonat 24b
Sonoco Products 7b
Southern 24a
Southern National 3c
Southern New Eng. Tel. 22b
Southern Pacific Rail 23b
SouthTrust 3c
Southwest Airlines 23a
Spiegel 8
Sports Authority 8
Springs Industries 15d
Sprint 22a
SPX 2b
St. Paul 17b
Standard Federal Bancorp. 17c
Standard Products 2b
Stanley Works 15b
Staples 8
State Street Boston 3a
Stewart & Stevenson 15c
Stone Container 7b
Stop & Shop 10c
Storage Technology 18b
Strawbridge & Clothier 8
Sun 11a
Sun Microsystems 18b
SunAmerica 17b
Sunbeam 6b
Sundstrand 1
SunTrust Banks 3c
Supervalu 10a
Sysco 10a

T

Talbots 8
Tandem Computers 18b
Tandy 6b
Tech Data 18a
Teco Energy 24a
Tecumseh Products 13a
Tejas Gas 24b
Tektronix 9c
Tele-Communications 20a
Teledyne 5
Teleflex 15a
Temple-Inland 7b
Tenet Healthcare 12c
Tenneco 5
Terra Inds. 4
Tesoro Petroleum 11a
Texaco 11a
Texas Industries 13a
Texas Instruments 9d
Texas Utilities 24a
Textron 5
Thermo Electron 9c
Thiokol 1
Thomas & Betts 9a
3Com 18b
3M 15a
TIG Holdings 17b
Time Warner 20b
Times Mirror 20b
Timken 15c
TJX 8
TNT Freightways 23d
Torchmark 17b
Toro 6b
Tosco 11a
Toys 'R' Us 8
Transamerica 17b
Transatlantic Holdings 17b
Travelers Group 17a
Triarc 5
Tribune 20b
Trinity Industries 23c
Trinova 15a
TRW 5
Turner Broadcasting 20a
20th Century Industries 17b
Tyco Intl. 15c
Tyson Foods 10b

U

[illegible] 3d
U S Healthcare 12c
U S Home 13b
U S Surgical 12d
UAL 23a
UBI Financial 3a
Ultramar 11a
[illegible] 24a
[illegible] 15d
Union Bank 3d
Union Camp 7b
Union Carbide 4
Union Electric 24a
Union Pacific 23b
Uniroyal Chemical 4
Unisys 18b
United HealthCare 12c
United Technologies 1
Unitrin 17b
Univar 21b
Universal 6e
Universal Foods 10b
Universal Forest Products 1
Unocal 11a
UNUM 17b
US West Communications 2
US West Media 20b
USAir Group 23a
USF&G 17b
USG 13a
USLife 17b
UST 6e
USX-Marathon 11a
USX-U.S. Steel 16b
UtiliCorp United 24b

V

Valero Energy 11a
Valhi 5
Value City 8
Value Health 12c
Varian Associates 9b
Varity 15c
Vastar Resources 11a
Venture Stores 8
VF 6a
Viacom 14b
Viking Office Products 8
Vishay Intertechnology 9d
Vons 10c
Vulcan Materials 13a

W

Waban 8
Wachovia 3c
Wal-Mart Stores 8
Walgreen 12a
Wang Laboratories 18c
Warner-Lambert 12b
Washington Gas Light 24b
Washington Mutual 17c
Washington Post 20b
Webb (Del) 13b
Weirton Steel 16b
Wellman 4
WellPoint Health 12c
Wells Fargo 3d
Wendy's Intl. 14a
Western Atlas 11b
Western Digital 18b
Western Gas Resources 24b
Western Resources 24a
Westinghouse Electric 9a
WestPoint Stevens 6a
Westvaco 19b
Weyerhaeuser 19b
Wheelabrator Techs 24a
Whirlpool 6b
Whitman 5
WHX 16b
Wickes Lumber 8
Wicor 24b
Willamette Industries 19a
Williams 24b
Winn-Dixie Stores 10c
Wisconsin Energy 24a
Witco 4
WLR Foods 10b
WMX Technologies 21c
Woolworth 8
WorldCom 22a
Worthington Inds. 16b
Wrigley (Wm.) Jr 10b

XYZ

Xerox 18b
Yellow 23d
York Intl 13a
Zale 8
Zeigler Coal Holding 11a
Zenith Electronics 6b

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MESSE MÜNCHEN INTERNATIONAL

Meeting Points in 1996

Munich International Trade Fair

Extract

At the Trade Fair Centre

20–23 January 1996 – **INTERSCHAU,** International Trade Fair for Showmen, Amusement Park Equipment and Cultural Heritage Societies

6–9 February 1996 – **ISPO – Spring***°, 44th International Trade Fair for Sports Equipment and Fashion

23–26 February 1996 – **INHORGENTA MÜNCHEN***°, 23rd International Trade Fair for Watches, Clocks, Jewellery, Precious Stones, Pearls, Silverware and their Manufacturing Equipment

9–17 March 1996 – **IHM***, 48th International Light Industries and Handicrafts Fair. The Fair for Small and Medium-Sized Enterprises

27–31 March 1996 – **IOR '96,** 8th International Off-Road Vehicle Exhibition

28–31 March 1996 – **FARBE,** International Trade Fair for Paints and Surface Technology

23–26 April 1996 – **ANALYTICA***, 15th International Trade Fair for Biochemical and Instrumental Analysis, Diagnostics, Laboratory Technology and *Analytica Conference*

7–11 May 1996 – **IFAT***, 11th International Trade Fair for Waste Water and Waste Disposal: Sewage, Refuse, Recycling, Public Cleansing and Winter Road Service

6–9 August 1996 – **ISPO – Summer***°, 45th International Trade Fair for Sports Equipment and Fashion

21–25 September 1996 – **IMEGA***°, 4th International Trade Fair for the Restaurant and Catering Industries and for the Food Trade

21–25 October 1996 – **SYSTEMS 96***, 15th International Trade Fair and Congress for Information Technology and Telecommunications

1–3 November 1996 – **MINERALIENTAGE MÜNCHEN '96,** 33rd International Sales Exhibition (BÖRSE) and German Geological Trade Fair (GEOFA) for Minerals, Fossils, Crystals, Precious Stones, Specialized Literatur and Accessories

12–15 November 1996 – **ELECTRONICA***, 17th International Trade Fair for Component and Assemblies in Electronics

At the M,O,C, Sports and Fashion Center

11–13 February 1996/25–27 August 1996 **MODE-WOCHE-MÜNCHEN***°, International Fashion Fair

23–24 February 1996 – **FAIRWAY '96,** 2nd Golf Course Congress with Exhibition

21–23 September 1996 – **CINEC,** International Trade Fair for Motion Picture Technology and Postproduction

29 September–1 October 1996 **GOLF EUROPE '96 – München**°, 4th International Trade Fair for Golf

Outside Germany

27 February–2 March 1996 **MADE IN GERMANY,** German Industrial Fair and Technology Conference (Organizer: IMAG), Johannesburg, South Afr

10–14 June 1996 – **IRANCONMIN '96,** 2nd International Trade Fair for the Construct Industry, the Building-Materials Industry, an Mining (Technical management: MMG/IMA Tehran, Iran

16–21 June 1996 – **68th POZNAŃ INTERNATIONAL FAIR,** International Trac Fair for Capital Goods (Technical management: IMAG), Poznań, Poland

3–6 September 1996 – **SIB 96,** 6th International Trade Fair for Imports anc Exports (Technical management: MMG/IMA Novosibirsk, Siberia

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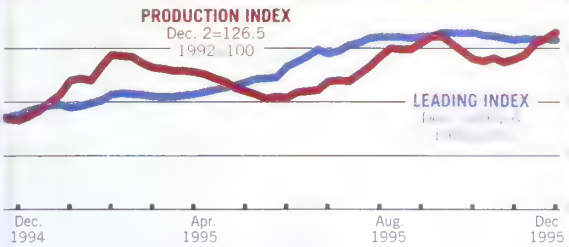
* Member of the

Subject to alterations

ODUCTION AND LEADING INDEXES

ange from last week: 0.5%
ange from last year: 0.5%



exes are 4-week moving averages

production index increased during the week ended Dec. 2. Before ilation of the four-week moving average, the index rose to 127.2, from For the month of November, the index increased to 126.1, up sharply October's reading of 123.7.

leading index was little changed in the latest week, although the eraged index dropped to 260.8, from 261.1. The November leading index l at 261.6, not much different from its 261.8 in October.

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (12/8) S&P 500	617.04	605.55	37.1
PORATE BOND YIELD, Aaa (12/8)	6.81%	6.94%	–19.6
JSTRIAL MATERIALS PRICES (12/8)	111.6	111.2	NA*
INESS FAILURES (12/1)	462	389	20.3
L ESTATE LOANS (11/29) billions	$502.0	$502.0r	9.6
EY SUPPLY, M2 (11/27) billions	$3,737.7	$3,729.2r	4.4
IAL CLAIMS, UNEMPLOYMENT (11/25) thous.	363	381r	14.9

ces: Center for International Business Cycle Research (CIBCR), Standard & s, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans. *Historical data available from CIBCR

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (12/12)	5.69%	5.72%	5.48%
MERCIAL PAPER (12/12) 3-month	5.65	5.69	6.30
TIFICATES OF DEPOSIT (12/13) 3-month	5.67	5.67	6.30
D MORTGAGE (12/8) 30-year	7.43	7.60	9.30
USTABLE MORTGAGE (12/8) one-year	5.62	5.71	6.57
ME (12/13)	8.75	8.75	8.50

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (12/9) thous. of net tons	1,882	1,934#	–3.0
AUTOS (12/9) units	139,130	126,585r#	–9.4
TRUCKS (12/9) units	124,444	125,160r#	2.2
ELECTRIC POWER (12/9) millions of kilowatt-hrs	60,563	58,996#	3.3
CRUDE-OIL REFINING (12/9) thous. of bbl./day	14,191	14,223#	3.0
COAL (12/2) thous. of net tons	19,966#	17,568	–5.8
PAPERBOARD (12/2) thous. of tons	830.3#	829.1r	–6.0
PAPER (12/2) thous. of tons	789.0#	825.0r	–10.0
LUMBER (12/2) millions of ft.	423.5#	273.0	5.6
RAIL FREIGHT (12/2) billions of ton-miles	26.3#	21.1	0.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (12/13) $/troy oz.	387.600	388.400	1.9
STEEL SCRAP (12/12) #1 heavy, $/ton	134.00	134.50	–6.6
COPPER (12/9) ¢/lb.	135.5	137.6	–3.0
ALUMINUM (12/9) ¢/lb	77.8	78.5	–13.6
COTTON (12/9) strict low middling 1-1/16 in., ¢/lb.	84.13	83.66	4.4
OIL (12/12) $/bbl.	18.79	18.66	11.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (12/13)	101.71	101.42	100.28
GERMAN MARK (12/13)	1.45	1.44	1.57
BRITISH POUND (12/13)	1.53	1.54	1.56
FRENCH FRANC (12/13)	5.02	4.97	5.42
ITALIAN LIRA (12/13)	1599.3	1595.0	1632.1
CANADIAN DOLLAR (12/13)	1.37	1.37	1.39
MEXICAN PESO (12/13)	7.745	7.655	3.450

Sources: [illegible] units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SS DOMESTIC PRODUCT

day, Dec. 19, 8:30 a.m. ▶ The Com- e Dept. is expected to report that real as measured on a chain-weighted , grew at an annual rate of 3.2% in ird quarter. That's the median fore- of economists surveyed by MMS Inter- nal, one of The McGraw-Hill Compa- and it is slightly faster than the 3% ted in October. Under the old 1987- fixed-weight method, real GDP grew at % pace last quarter.

SING STARTS

day, Dec. 19, 8:30 a.m. ▶ Starts like- e to an annual rate of 1.35 million in mber from October's 1.34 million.

FOMC MEETING

Tuesday, Dec. 19 ▶ The Federal Open Market Committee of the Federal Reserve will set monetary policy for the next six weeks. The MMS consensus is that the federal funds rate will remain at 5.75%, but the recent soft data mean a quarter-point cut in short-term rates cannot be ruled out.

INTERNATIONAL TRADE

Wednesday, Dec. 20, 8:30 a.m. ▶ The foreign trade deficit for goods and services likely widened to $9 billion in October, from $8.3 billion in September. Exports, which grew 1.6% in September, were little changed in October, while imports, up 1.4%, probably rose at a faster pace in October.

PERSONAL INCOME

Thursday, Dec. 21, 8:30 a.m. ▶ Personal income likely rose by 0.5% in October and 0.3% in November, while consumer spending was probably flat in October and up a small 0.4% in November. Because of the GDP revisions, the October and November income and spending data will be released simultaneously. In September, income grew 0.4%, while outlays rose 0.2%.

FEDERAL BUDGET

Thursday, Dec. 21 ▶ The Treasury Dept. is likely to announce a federal deficit of about $38 billion in November, not much different from the $37.2 billion deficit posted in November, 1994.

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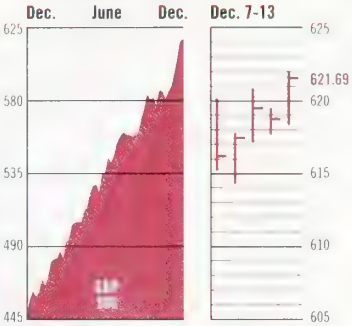
nvestment Figures of the Week

MENTARY

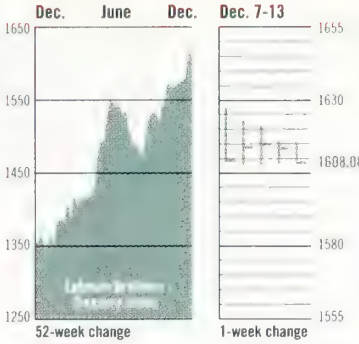
er record-breaking week for s on Wall Street. The Dow industrials vaulted over the level on Dec. 13 to close at 5. The Standard & Poor's tock index reached a new ıs well. But the big action ıainly in the blue chips. s of small and midsize com- s did not fare as well. Japan- ocks, up 1.1%, reached their st level in nearly a year. The ser was Mexico, where stocks ed 3.5%. For dollar-based in- 's, the damage was even —down 5.2%.

STOCKS



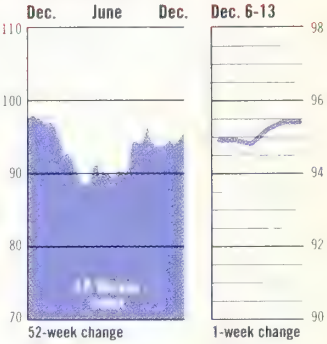
52-week change +36.6% | 1-week change +0.2%

BONDS



52-week change +18.8% | 1-week change −0.5%

THE DOLLAR



52-week change −2.2% | 1-week change +0.5%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
IONES INDUSTRIALS	5216.5	0.3	39.2
ZE COMPANIES (S&P MidCap Index)	216.8	−0.8	31.0
. COMPANIES (Russell 2000)	312.6	0.0	31.4
OMPANIES (Russell 3000)	353.7	0.1	36.4

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3662.4	0.0	22.9
) (NIKKEI INDEX)	19,283.5	1.1	1.9
NTO (TSE COMPOSITE)	4698.4	−1.0	15.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.41%	5.47%	5.82%
30-YEAR TREASURY BOND YIELD	6.07%	6.03%	7.86%
S&P 500 DIVIDEND YIELD	2.21%	2.20%	2.83%
S&P 500 PRICE/EARNINGS RATIO	17.6	18.3	16.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	551.8	548.5	Positive
Stocks above 200-day moving average	67.0%	67.0%	Neutral
Speculative sentiment: Put/call ratio	0.63	0.60r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.45	1.52	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

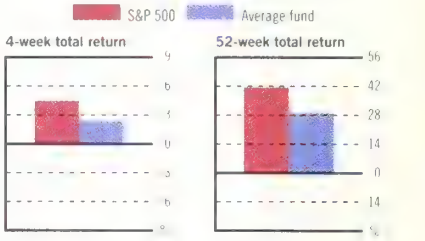
MONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
L AND GAS DRILLING	20.8	28.3	ROWAN	24.6	51.1	8 7/8
ıNUFACTURED HOUSING	14.4	31.1	FLEETWOOD ENTERPRISES	14.4	34.6	25 3/4
L WELL EQUIPMENT AND SERVICES	14.2	31.9	BAKER HUGHES	21.7	31.2	23 1/8
GINEERING AND CONSTRUCTION	13.9	41.2	FLUOR	17.8	50.9	65 1/4
FENSE ELECTRONICS	12.7	88.6	LORAL	14.8	81.8	35

MONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
MICONDUCTORS	−10.4	56.7	MICRON TECHNOLOGY	−17.8	153.0	53 1/8
REST PRODUCTS	−5.9	7.3	GEORGIA-PACIFIC	−15.4	−6.4	68
OES	−5.6	29.3	STRIDE RITE	−26.2	−29.6	7 3/4
MMUNICATIONS EQUIPMENT	−5.4	64.3	ANDREW	−12.6	34.8	39 3/4
MPUTER SYSTEMS	−5.1	41.4	COMPAQ COMPUTER	−10.8	24.7	48 5/8

UTUAL FUNDS

MORNINGSTAR INC.

ERS		LAGGARDS	
week total return	%	Four-week total return	%
DELITY SELECT ENERGY SERVICE	12.5	MERRILL LYNCH TECHNOLOGY C	−11.0
AP-EQUITY	10.7	KEYSTONE AMERICA HARTWELL EMERG. GR. B	−8.8
W/DW LATIN AMERICAN GROWTH	9.7	SELIGMAN COMMUNICATIONS & INFORM. D	−8.7
eek total return	%	52-week total return	%
GER CAPITAL APPRECIATION	94.1	WRIGHT EQUIFUND-MEXICO	−57.6
DELITY SELECT ELECTRONICS	82.7	MERRILL LYNCH LATIN AMERICA C	−39.3
OVETT SMALLER COMPANIES A	79.9	BT INVESTMENT LATIN AMERICAN EQUITY	−39.0



ELATIVE PORTFOLIOS

DRI/McGRAW-HILL

ar amounts represent the ent value of $10,000 sted one year ago ıch portfolio

entages indicate day total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$13,956	$13,431	$11,697	$10,562	$10,149
+0.18%	−0.18%	+0.43%	+0.12%	+0.58%

ata on this page are as of market close Wednesday, Dec. 13, 1995, unless otherwise in- ed. Industry groups include S&P 500 companies only; performance and share prices are as of market close Dec. 12. Mutual fund returns are as of Dec. 8. Relative portfolios are val- ued as of Dec. 12. A more detailed explanation of this page is available on request. r=revised

GIVING GROWTH A CHANCE

The U.S. is entering 1996 in remarkably good economic shape. Over the past three years, growth has averaged about 3%, measured by the Commerce Dept.'s new output index. Corporate earnings, on average, are on track to soar a mighty 41% this year, the unemployment rate is only 5.6%, inflation is close to nonexistent, and productivity is substantially higher than it was in the 1980s. Interest rates are low and falling, the stock market is hitting new highs almost daily, and businesses are going public at a record pace.

On the international front, the persistent trade deficit with Japan is finally shrinking, the U.S. is attracting foreign direct investment at a rate of $69 billion annually, and, according to the Geneva-based World Economic Forum, efficiency has increased to the point where the U.S. has been acclaimed the most competitive economy in the world for the second year in a row.

There are even glimmerings of good news on the wage front. Many Americans are still earning less, in real terms, than they were five years ago. But real wages have started to move up across a wide array of jobs, especially in the service sector, as rising productivity and profits create more room for wage increases. That's essential if the fruits of growth are to be distributed to the bulk of Americans.

FIGHTING THE LAST WAR

The one thing that's missing, surprisingly, is optimism about the future. The conventional wisdom among economists and policymakers is that the U.S. economy can grow only 2% per year for the foreseeable future, as measured by the new statistics. But this is a self-defeating attitude: These rates of growth are capable of keeping the U.S. in place, nothing more. If this is all the U.S. economy can muster, it will not be possible to pay for the education of the next generation, the retirement of the baby boomers, or the investment in physical and human capital needed to stay ahead in the global economic race.

In fact, the evidence is accumulating that the U.S. economy can safely sustain higher rates of growth, perhaps as much as 3% annually. Just as the economic pundits, including Alan Greenspan in his role as head of the Council of Economic Advisers under Gerald Ford, missed the slowdown of the economy in the 1970s, so are they missing the return of economic vigor in the 1990s. The productivity increases of recent years are no flash in the pan. Instead, they are the result of long-term structural forces, such as technological advances, globalization, and corporate restructuring, that will continue to produce gains in the years ahead.

Can anything be done to encourage growth? Most of the ongoing changes are beyond the reach of government action. The key to prosperity is how fast American companies and individuals can create new jobs, products, and industries that use the new technology, or can compete effectively in global markets. Government is simply not capable of managing the flood of creativity that is energizing the economy today. (
example: No policymaker in his or her right mind could h
ever conceived of the explosion of commercial and intelle
al activity on the Internet over the past year.

Still, there are some ways that government can provid
better environment for growth. For one, there's room
short-term interest rates, now at 5¾%, to come down.
Federal Reserve, led by Greenspan, has done a terrific jo
managing monetary policy in recent years. The economy
achieved the fabled soft landing. But now, like a gen
fighting the last war, the Fed is still concerned with infla
when it should be worried about growth. Lower short-te
interest rates, by themselves, cannot assure prosperity.
they can provide enough of a boost to keep the economy
ing during the inevitable slow periods.

ACHIEVING A BALANCED BUDGET

It's also essential for Democrats and Republicans to
their feuding and finish balancing the budget. That's the
way to raise national savings and reduce long-term inte
rates. The U.S., with a federal budget deficit totaling ab
2.3% of national output, is already way ahead of much of
rope in closing the gap between government revenues
spending, but it could do even better. Moreover, even cla
Keynesian economic policy suggests that the federal g
ernment should run a deficit during recession and a sur
during the good years—and if these aren't good years,
hard to know what would be.

Even as they balance the budget, Congress and the Cli
Administration should focus on encouraging savings by i
viduals as well. The personal savings rate is still only ab
4%, far less than what long-term growth demands. The
budget plan from Congress would expand the eligibility fo
dividual retirement plans, but more incentives for savings
needed. One possibility: Increase the limit on how much
dividuals can put into their tax-deferred 401(k) plans e
year. Such legislation may cost money, but the benefit
higher savings are well worth it.

Finally, it's about time that the U.S. was freed of
moded regulations on telecommunications and financial
vices. Telecommunications reform may or may not happen
fore the end of the year, while finance reform seems sta
for the time being on Capitol Hill. Both pieces of legisla
present the unappealing sight of large corporations
wrestling over who will get how big a slice of the pie.
doesn't benefit either consumers or business customers:
should be the year when Congress passes deregulation of
industries.

Going into an election year, it may be hard for politician
resist hyperbolic attacks on the economic policies of the
er party. But what they should do is focus on the impor
goal: how to keep America growing. That is the true rout
success.

AMERICAN STOCK EXCHANGE COMPOSITE TRANSACTIONS

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